

Boardroom, Falkirk Campus at 4.30pm
Refreshments will be available from 4pm

AGENDA

1. Declarations of interest
2. Apologies

FOR APPROVAL

3. Minutes of meeting of 4 December 2018
4. Matters Arising - None
5. Internal Auditor Appointment (to follow) Alison Stewart
6. External Audit Plan Ernst & Young

FOR DISCUSSION

7. Presentation of Internal Audit Reports Scott Moncrieff
 - a) People Strategy
 - b) Mental Health Services
 - b) Project Management
8. 2018/19 Internal Audit Plan Progress Report Scott Moncrieff
9. Progress Report on Audit Recommendations Stephen Jarvie
10. National Fraud Initiative 2018/19 Alison Stewart
11. Scottish Government Audit & Assurance Committee Handbook 2018 Alison Stewart
12. Risk Management Alison Stewart
13. Review of Risk
14. Any other competent business

FOR INFORMATION

Forward Programme of Committee Business
Good practice note on improving the quality of college annual report and accounts – Governance Statements

Boardroom, Falkirk Campus (commencing at 5.30pm)

Present: Mrs Lorna Dougall (Chair)
Mrs Pamela Duncan
Mr Lindsay Graham
Mrs Beth Hamilton
Mr Steven Torrie (Co-opted Member)

In Attendance: Dr Ken Thomson, Principal
Mrs Alison Stewart, Vice Principal Finance and Corporate Affairs (VPFACA)
Mr Stephen Jarvie, Corporate Governance and Planning Officer (CGPO)
Mrs Hannah Ritchie, Director of Curriculum Care, Sport and Construction
Mrs Senga McKerr, Head of Finance (HOF) for items A/18/012 and 013 only
Ms Louise Burnett, Finance Manager (FM) for items A/18/012 and 013 only
Ms Elizabeth Young, Scott Moncrieff
Mr Stephen Reid, Ernst & Young

The first two items were considered in conjunction with members of the Finance Committee.

A/18/012 Annual Report and Financial Statements 2017/18

The HOF presented members with the annual report and financial statements. She highlighted the main features of the report, noting that the College was still considered to be a going concern and that the financial year had concluded with a surplus.

Members queried the figures for “days cash” on page 9 of the report which showed this had risen from 29 days the previous year to 60 days. The HOF reported that this change was in relation to the funding used to pay Balfour Beatty as they work on the new Falkirk campus.

Members also noted that, in the section on going concern, the statement had been written as a double negative and should be rewritten to be clearer. The HOF agreed that this would be changed in the final version of the document.

The VPFACA also provided Audit Committee members with an update on developments with the Barclays covenants (as previously discussed at this meeting by the Finance Committee), noting that Barclays were amenable to removing the covenants so long as the College remained an arms length public body and have a million pounds in the bank at the end of each quarter. This change has yet to be finalised so was not included in the accounts.

a) Members approved the Annual Report and Financial Statements 2017/18 for recommendation to the Board of Management

A/18/013 Draft External Audit Annual Report to the Board of Management

Stephen Reid, Partner, Ernst and Young, presented members with the draft report from Ernst & Young. He provided an overview of the audit and the areas they had looked at, including new risks for the College sector which had been identified by Audit Scotland but which the audit had not found in the College. He reported that there had been no adjustments identified and he envisioned issuing an unqualified report on the accounts.

Members expressed their appreciation for the Finance team on a successful result.

a) Members approved the Draft External Audit Annual report for submission to the Board of Management

Members of the Finance Committee exited the meeting at this point.

A/18/014 Declarations of Interest

None

A/18/015 Apologies for Absence

Mandy Wright (Co-opted Member)

A/18/016 Minute of Meeting of 6 September 2018

The minutes of the Meeting of 6 September 2018 were approved as an accurate record.

A/18/017 Matters Arising

a) A/18/005 Annual Internal Audit Plan 2018-19

The Chair noted that members had requested an update to the College assurance map and noted that this was included with the papers as a 'for information' item.

A/18/018 Chairs Report to the Board of Management

The Chair presented members with the annual report to the Board of Management on the Audit Committee.

a) Members approved the Chairs Report for submission to the Board of Management

A/18/019 Presentation of Internal Audit Reports

Elizabeth Young, Scott Moncrieff, presented members with reports on credits and student funds.

She informed members that both reports were clean with only one low level recommendation.

a) Members noted the content of the report

A/18/020 Progress Report on Audit Recommendations

The CGPO presented members with an update on progress against recommendations, noting that a large number had been completed.

He highlighted one recommendation where the College were seeking an extension to the completion date and explained the reason for this. Members agreed to the extension.

While discussing the recommendation relating to GDPR, members queried whether College staff take exam scripts home to review them. It was agreed that the CGPO would look into this and report back at the next meeting under matters arising.

a) Members noted the content of the report

A/18/021 Risk Management

The VPFACA presented members with the revised College Strategic Risk register. She reported that the risks had been completed revised following the discussions and suggestions at the September Board of Management Strategic Session.

She highlighted that an additional risk had been added to reflect information coming through to the College in relation to an increase in employer's pension contributions for the teachers' pension scheme. She went on to outline the rationale for this risk and the potential impact on the College. This is dependent upon the next round of funding from Scottish Government which may address this additional cost.

The Principal informed members that the register would be further developed to ensure opportunities available to the College are also captured and that he would be working with the Directors of Curriculum on this.

He also discussed cyber security threats to the College, noting recent training he had been on and how the sector was looking into this.

a) Members welcomed the updated risk register and noted the contents

A/18/022 Private Discussion between Committee and Auditors (Verbal)

a) Both External and Internal Auditors noted that there was always good cooperation and good communication with staff when they were engaging in audit activity. They noted that FVC was at the good end of the College

performance spectrum which was positive given the ever changing FE sector landscape. The changes to the Finance Team had bedded in well and there was a good quality of engagement.

- b) The Audit Committee should continue to challenge the SMT to ensure that the Board was receiving sufficient information to support decision-making.
- c) Future considerations for the Audit Committee would continue to include succession planning (the changes to the structure which had already taken place were noted) and leadership development of those in senior roles. The move to the new campus would continue to be a risk until fully delivered and operational and the impact of the move on staff should continue to be scrutinised. Current controls involving the demonstration of new layouts and hands on experience with new software were providing good preparation.

A/18/023 Review of Risk

None

A/18/024 Any Other Competent Business

None

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1. Purpose

To present the draft External Audit Plan for year ending 31 July 2019 for approval by the Audit Committee.

2. Recommendation

That the Audit Committee approves the draft External Audit Plan.

3. Background

Ernst Young are the external auditors for the College, appointed by Audit Scotland.

They have prepared the attached Audit Plan in accordance with Audit Scotland's Code of Audit Practice. The Plan reports on the assessment of the operational and financial risks considered relevant to the responsibilities of Ernst Young as auditors to the Board of Management of Forth Valley College. The Plan also sets out the framework and timetable within which the external audit for year ending 31 July 2019 will be carried out.

4. Key Considerations

Ernst Young have worked with senior College staff to create the plan along with guidance issued by Audit Scotland.

5. Financial Implications

Fees are outlined in the attached document.

6. Equalities

Assessment in Place? – Yes No

If No, please explain why – Not applicable

7. Risk

Please indicate on the matrix below the risk score. Risk is scored against Impact and Likelihood as Very Low through to Very High.

	Likelihood	Impact
Very High		
High		
Medium		
Low	X	X
Very Low		

Please describe any risks associated with this paper and associated mitigating actions – The process in place is very robust and preparations for the annual audit are already underway

Risk Owner – Alison Stewart

Action Owner – Alison Stewart

8. Other Implications –

Please indicate whether there are implications for the areas below.

Communications – Yes No

Health and Safety – Yes No

Please provide a summary of these implications – Not Applicable

Paper Author – Stephen Jarvie

SMT Owner – Alison Stewart

Forth Valley College

Annual Audit Plan Year ending 31 July 2019

Audit Committee – 23 May 2019

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About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Auditor General for Scotland has appointed us as external auditor of Forth Valley College ("the College") for financial years 2016/17 to 2020/21.

This report is for the benefit of the College and is made available to the Auditor General for Scotland and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Purpose of this report

The Auditor General for Scotland has appointed us as auditor of the College under the Public Finance and Accountability (Scotland) Act 2000 (“the Act”). The period of appointment is 2016-17 to 2020-21 inclusive.

This Annual Audit Plan, prepared for the benefit of Forth Valley College management and the Audit Committee, sets out our proposed audit approach for the audit of the financial year ending 31 July 2019, the third year of our appointment. In preparing this plan, we have updated our understanding of the College through planning discussions with management, review of relevant documentation and Board and committee reports, and our general understanding of the environment in which the College is currently operating.

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the College employs best practice and where processes can be improved. We use these insights to form our audit recommendations to support the College in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit.

After consideration by the College, the plan is provided to Audit Scotland and published on their website.

Scope and responsibilities

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; relevant Auditing Standards and applicable Practice Notes issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

Financial statement audit

We are responsible for conducting an audit of the financial statements of the College. We will provide an opinion on the financial statements as to whether:

- They give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the College’s affairs as at 31 July 2019 and its surplus or deficit for the year then ended.
- They have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102: The Financial Reporting Standard applicable in the UK and Ireland.
- They have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder issued by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

We also review and report on the consistency of the other information prepared and published by the College along with its financial statements.

Wider scope audit

The wider scope audit, as set out in the Code, plays a key role in the public sector audit framework in Scotland. No wider scope audit focus areas for 2018/19 have been identified during our audit planning.

We undertake certain audit procedures which impact on the wider scope audit dimensions as a consequence of our financial statements audit. We will report our findings on completion of our audit.

Materiality

Planning materiality £670,000	Materiality has been set at £670,000 (2017/18: £560,000), which represents approximately 2% of the estimated gross expenditure for the year.
Tolerable Error £500,000	Tolerable error has been set at £500,000, which represents 75% of materiality.
Summary of uncorrected differences £30,000	We will report all uncorrected misstatements relating to the primary financial statements greater than £30,000. Other misstatements will be communicated to the extent that they merit the attention of the Audit Committee.

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report, providing an overview of our initial risk assessment and any change in risk profile in the year.

Financial statements audit

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk / Significant risk	No change	In accordance with ISA (UK) 240, we consider the presumed fraud risk in respect of improper income recognition. Due to the nature of SFC funding to the College, we have rebutted the risk of fraud around this specific income stream. We extend our work to consider the recognition of expenditure, in accordance with Practice Note 10, issued by the Financial Reporting Council, as applicable to public sector audit.
Misstatement due to fraud or error	Fraud risk	No change	As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Property, Plant and Equipment	Inherent risk	No change	Given the value of the College's estate and the number of assumptions which are made in the valuation process, we assign a higher inherent risk to property, plant and equipment.
Pension liabilities	Inherent risk	No change	We have identified an inherent risk in relation to the valuation of the pension liabilities. The College is an admitted body of the Falkirk Pension Fund. There is judgement involved in determining the appropriate actuarial assumptions to calculate the College's net pension liabilities arising from its participation in the scheme.

Independence

We confirm that we have undertaken client and engagement continuance procedures, included in which is our continuing assessment of our independence to act as your external auditor.

Key contacts

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1. Financial statements and accounting

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The annual financial statements enables the College to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice and applicable law.

Audit opinion

We provide an opinion on the financial statements as to whether they give a true and fair view of the financial position of the College, and whether they have been properly prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended). We also review and report on the consistency of the other information prepared and published by the College along with its financial statements.

We undertake our financial statements audit work in accordance with the four phases of EY's Global Audit Methodology: Planning; Identification and assessment of risk; Design and execution of our response to those risks; and Conclude and communicate.

Audit approach

We determine which accounts, disclosures and relevant assertions could contain risks of material misstatement. Our audit involves:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements.
- Maintaining auditor independence.
- Substantive tests of detail of transactions and amounts. For 2018/19 we plan to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated. Our audit approach includes the use of our bespoke data analysers to allow us to analyse 100% of the College's transactions around key income and expenditure accounts rather than rely on random sampling.

Materiality

For the purposes of determining whether the financial statements are free from material error, in accordance with ISA (UK) 320 we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Gross expenditure on provision of services, excluding the 'gross-up' of income and expenditure for the College = £33,7 million

Planning materiality £670,000	Planning materiality (PM) - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For planning purposes, materiality for 2018/19 has been set at £670,000 (2017/18 £560,000). This represents approximately 2% of the College's report gross expenditure for the prior year (2017/18: 2%).
Tolerable Error £500,000	Tolerable error (TE) - materiality at an individual account balance, which is set so as to reduce to an acceptably low level that the aggregate of uncorrected and undetected misstatements exceeds PM. We have set it at £500,000 (2017/18 £420,000) which represents 75% of planning materiality.
Summary of Audit Differences £30,000	Summary of Audit Differences (SAD) Nominal amount - the amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements. The Code requires that auditors report at no more than £250,000. We have set it at £30,000, which represents 5% of planning materiality.

The amount we consider material at the end of the audit may differ from our initial determination. At the end of the audit we will form, and report to you, our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

We consider all accounts and disclosures within the financial statements individually to ensure an appropriate materiality is used. In determining their materiality, we consider both the quantitative and qualitative factors that could drive materiality for the users of the financial statements. Accordingly we determine it is appropriate to use lower levels of materiality for some areas of the financial statements, including:

- Remuneration report - given the sensitivity around the disclosure of senior staff remuneration we apply a materiality of £1,000 to our audit consideration around the remuneration report and related disclosures.
- Related party transactions - related party transactions are considered material when they are material either party in the transaction. As such, we do not apply a specific materiality to related party audit work but consider each transaction individually.

We have set out the significant risks (including fraud risks) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Significant risk – risk of fraud in income and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Given the nature of Scottish Funding Council (SFC) funding to the College, we rebut the presumed revenue recognition risk for this income stream. However we recognise a revenue recognition risk for tuition income and other material income in respect of possible manipulation of cut-off around the financial year end.

We also recognise the same risk around incorrect recognition of non-pay expenditure in line with Practice Note 10.

Our identified response to the risk

Our response will include:

- review and test all relevant income and expenditure policies against the relevant accounting standards and SORP
- review, test and challenge management around any accounting estimates on income and expenditure recognition for evidence of bias
- develop a testing strategy to test material income and expenditure streams
- review and perform focused testing on income and expenditure around the year end to ensure correct recognition around cut-off between financial periods.

Fraud risk – misstatement due to fraud or error

What is the risk?

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

The risk of management override is pervasive to the audit and impacts the testing of all areas. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk. This takes account of the fact that management are in a unique position to override controls which otherwise appear to be operating effectively.

Beyond the noted risk around recognition of income and expenditure, we have not identified a specific account where the risk of management override is higher.

Our identified response to the risk

Based on the requirements of auditing standards our approach will focus on:

- identifying fraud risks during the planning stages
- inquiry of management about risks of fraud and the controls put in place to address those risks
- consideration of the effectiveness of management's controls designed to address the risk of fraud
- determining an appropriate strategy to address those identified risks of fraud
- performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements
- specific focus on the accounting for any identified key areas of judgement and estimates in the financial statements and significant and unusual transactions. This will include consideration of any provisions requiring to be made as at the balance sheet date for any restructuring arrangements entered into by the College.

➤ Significant and fraud risks identified in the audit relate to the risk of fraud in income and expenditure recognition. We also perform procedures to respond to the risk of misstatement due to fraud or error caused by management override of controls.

➤ We will report our findings in these areas to you within our 2018/19 Annual Audit Report.

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

Inherent risk - Valuation of Property, Plant and Equipment

What is the risk?

The College's property portfolio totals £40.1 million as at 31 July 2018, with the major elements of this being in respect of land and buildings. Land and buildings are revalued to fair value with a full revaluation taking place at least every five years. The last full valuation of existing land and buildings was undertaken in July 2015, with a subsequent interim valuation performed at 31 July 2017. During 2018/19, management is planning to perform a full valuation of the Alloa and Stirling campuses.

The College is currently planning a new £78 million Falkirk Campus. Construction completion is expected by the end of 2019. Management intends to commission a valuation as at 31 July 2019.

The Board has approved the sale of the old campus building at £4 million (approximately in line with the current net book value) after the College takes possession of the new campus. All proceeds from the sale are part of the funding of the new campus building under the agreed arrangements with the SFC.

Given the size of this balance and the fact that a number of assumptions are made in the valuation, we assign a higher inherent risk to property, plant and equipment.

We do not, however, at the planning stage have any specific concerns over management's approach to property valuations.

Our identified response to the risk

Our approach will focus on:

- analysis of the source data and inquiries as to the procedures used by management's specialist to establish whether the source data is complete
- assessment of the reasonableness of the assumptions and methods used, including their compliance with the SORP
- consideration of the appropriateness of the timing of when the specialist carried out the work
- assessment of whether the substance of the specialist's findings are properly reflected in the financial statements.
- assessment of the potential for impairment across the College estate that has not been reflected in the financial statements or most recent formal valuation.
- detailed testing of the assets under construction balance at the yearend, ensuring costs capitalised meets the capitalisation criteria under the applicable financial reporting framework.

➤ The valuation of property, plant and equipment is assessed as an inherent risk. Management involves specialists in the preparation of these accounting valuations. We utilise our own specialists, as appropriate, to support the core audit team in the performance of audit procedures on these balances.

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

Inherent risk - Valuation of Pension Liabilities

What is the risk?	Our identified response to the risk
<p>The College participates in two pension schemes: the Falkirk Pension Fund (FPF), and the Scottish Teachers Superannuation Scheme (STSS). While both are defined benefit pension schemes, the College is unable to identify its share of the underlying assets and liabilities of the STSS scheme on a consistent and reasonable basis and therefore, the scheme is accounted for as if it were a defined contribution scheme.</p> <p>FPF is accounted for as a defined benefit scheme. The net pension liabilities on the balance sheet arising from participation in the scheme at 31 July 2018 were £7.9 million.</p> <p>In late 2018, a High Court ruling was made in relation to the equalisation of certain pension benefits payable to men and women, which could impact the measurement of the College's obligation in the Falkirk Pension Fund scheme going forward. The quantum of impact on the College's share of the scheme liabilities was unclear and deemed unquantifiable at the date of approval of last year's financial statements, with actuaries and pension schemes continuing to work through the impact of the ruling on individual member benefits.</p> <p>In addition the College recognises a provision for future early retirement liabilities - £6.8 million as of 31 July 2018.</p>	<p>Our approach will include:</p> <ul style="list-style-type: none"> ➤ obtaining an actuarial report at the year end date for the scheme and considering the reasonableness and consistency of assumptions underpinning such reports, in light of guidance available ➤ performing substantive testing on the verification of the pension assets, by engaging with the auditors of the FPF in line with the protocols laid out by Audit Scotland for IAS 19 assurance. ➤ assessing the work of the actuaries, including the assumptions they have used by engaging internal actuarial specialists to provide input on the consistency and appropriateness of assumptions underpinning the valuation of the pension schemes, and how the impact of the GMP ruling has been considered in the pension liability valuation. <p>we will also review the calculation of the College's valuation of future early retirement liabilities at 31 July.</p>
<p>➤ Accounting for the net pension deficit is assessed as an inherent risk. Management involves specialists in the preparation of this accounting estimate. We utilise our own specialists, as appropriate, to support the core audit team in the performance of audit procedures on this balance.</p>	

We also plan and perform certain general audit procedures on every audit which may not be directly related to financial statement account assertions. Examples of such procedures compliance with applicable laws and regulations, litigation and claims and related parties.

Other audit considerations

Data analytics

We will use our bespoke computer-based data analysers to enable us to capture whole populations of the College's financial data, in particular covering journal entries and payroll transactions. These analysers:

- Help identify specific exceptions and anomalies to direct substantive audit tests.
- Give greater likelihood of identifying errors than random sampling techniques.

Use of specialists

When auditing key judgements, such as the valuation of property, plant and equipment, or certain assets and liabilities, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the College's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable.
- Assess the reasonableness of the assumptions and methods used.
- Consider the appropriateness of the timing of when the specialist carried out the work.
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Management may use their own specialists in the preparation of the financial statements.

Internal audit

We will review internal audit plans and the results of their work, including the discussion of audit findings at the Audit Committee and management's response to findings.

We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements or our wider responsibilities.

Financial statements presentation and compliance with accounts direction

We will review the College's financial statements to ensure that financial information agrees to supporting schedules, and that non-financial information is consistent the financial performance and position of the College. We will also review the financial statements against the disclosure requirements outlined under FRS 102, the further education SORP, and the SFC accounts direction.

Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 came into force on 26 June 2017 and replace The Money Laundering Regulations 2007. The regulations impose an obligation on the Auditor General to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. As appointed auditor we will consider the College's arrangements to identify and report on any instances of money laundering in line with Audit Scotland reporting arrangements.

**2. Wider scope
audit risks**

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2. Wider Scope Audit Risks

Together the Accounts Commission and the Auditor General for Scotland agreed the four dimensions set out in the Code which comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money.

Basis for risk assessment

The Code sets out an expectation that 'significant' risks identified through our planning process that relate to the wider scope dimensions will be communicated with you.

In undertaking our risk assessment in respect of the wider scope audit areas, we distinguish between the definition of 'significant risks' which apply to the audit of the financial statements, by referring in our report to 'Wider Scope Audit Focus Areas', where these have been identified.

Outcome of risk assessment

We have identified financial sustainability at the College as a wider scope audit focus area for the year. The rationale for this focus is outlined in our audit consideration below. While we have not identified audit focus areas around the other wider scope dimensions, we do, however, undertake routine work in respect of each of these, by considering the evidence available to us through various aspects of our work. We will report accordingly our findings in respect of the following:

Audit dimension	Risk assessment	Rationale and response
<p>Financial management considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>No specific additional audit focus</p>	<p>In our 2017/18 Annual Audit Report, we concluded that the College's financial management arrangements overall were satisfactory. Financial regulations were comprehensive and subject to regular update and there was engagement between senior management and those charged with governance around the College's financial performance. We noted there was scope for greater focus and consideration on the specific risks in respect of EU Withdrawal on people, financial and rules and regulations and the College's plans for responding to these risks.</p> <p>In 2018/19, we will consider whether across the College:</p> <ul style="list-style-type: none"> ▶ The financial control environment and internal controls are operating effectively? ▶ Are standing financial regulations comprehensive, current and promoted across the College? ▶ Are there suitably qualified and experienced staff leading the College's finance team? ▶ Are arrangements for monitoring and scrutinising the College's financial position appropriate?

Audit dimension	Risk assessment	Rationale and response
<p>Financial sustainability considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.</p>	<p>No specific additional audit focus</p>	<p>In 2017/18 the College reported a deficit of £59,000 and an adjusted operating surplus after removal of non-cash accounting adjustments of £652,000. The College has prepared five-year financial forecasts to 2023 on the basis of the Board's strategic plans and supporting aims and objectives. For the five years to 2022/23 the College was forecasting £400,000 in underlying losses, and was in the process of developing corrective actions to achieve savings and ensure ongoing financial sustainability. The financial environment in which the College operates continues to be challenging, as is the case across the sector as financial pressures from pay bargaining and reduced funding settlements continue. As such this year we have identified this area as a wider scope area of audit focus.</p> <p>Our work for the year will consider:</p> <ul style="list-style-type: none"> ▶ Does the College have robust financial plans in place over the medium term? Are assumptions included in financial plans robust and appropriate and do they align to strategic and operational plans? ▶ Where gaps in financial plans are identified is the College taking corrective action through savings plans and is the pace and scale of these actions sufficient to ensure financial sustainability?
<p>Value for money considers whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.</p>	<p>No specific additional audit focus</p>	<p>In our 2017/18 Annual Audit Report we concluded that the College's arrangements for ensuring value for money were overall appropriate. A revised strategic plan was introduced from the start of the 2017/18 academic year and performance indicators developed to measure delivery and form part of the Colleges operational planning and staff performance reviews on an annual basis.</p> <p>Our work for the year will consider whether:</p> <ul style="list-style-type: none"> ▶ The College has a strategic plan that supports the delivery of services and achievement of key performance indicators. ▶ The College has visible performance reporting against measurable and relevant indicators, and that performance reporting is transparent, including publication on the College's website. ▶ The College has arrangements to ensure value for money through the use of public funds, including a robust procurement framework that is used by all employees and is subject to regular scrutiny, and a robust governance process for the approval of exit arrangements.

Audit dimension	Risk assessment	Rationale and response
<p>Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>No specific additional audit focus</p>	<p>In our 2017/18 Annual Audit Report we concluded that the College had in place the key requirements for good governance. We concluded that the Governance Statement materially complied with the SFC's 2017/18 Accounts Direction. We were satisfied overall with the College's established risk management process and arrangements for ensuring transparency around governance and decision making. We did note that arrangements should be made for ensuring management and those charged with governance are sighted to key messages and recommendations from national reports impacting the sector, and taking appropriate action where necessary.</p> <p>Our work for the year will consider:</p> <ul style="list-style-type: none"> ▶ Is the Governance Statement within the financial statements complete and does it reflect key findings from audit, scrutiny and inspection? Where non-compliance with the code of good governance is identified are appropriate mitigating actions in place and disclosed? ▶ Progress against prior year audit recommendations from both internal and external audit, including the College's arrangements for ensuring these are monitored and reported on a routine basis. ▶ Internal audit arrangements during 2018/19, including significant findings identified and the work done to address issues identified. ▶ The quality of arrangements in place to support good governance at the College, including ensuring the College has processes in place to consider national reports and take action where appropriate. ▶ Arrangements to ensure there is sufficient transparency around governance and decision making arrangements at the College. <p>In line with auditing standards, as part of our consideration of the College's governance arrangements this year, we will be writing to the College Audit Committee to confirm how those charge with governance ensure oversight of management and appropriate governance arrangements are in place. This is not reflective of specific risks identified at the College but rather in line with our process to annually make formal inquiries beyond standard management meetings and representations.</p> <p>In 2018/19 the College is required to participate in Scotland's National Fraud Initiative ("NFI") exercise, whereby public bodies share financial information to identify possible fraudulent activity where monies may be recoverable. We will consider the College's own self-assessment of how well NFI practices and culture is embedded and report back to Audit Scotland. We will report any significant findings to the Committee in our Annual Audit Report.</p>

Audit dimension	Risk assessment	Rationale and response
<p>Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>No specific additional audit focus</p>	<p>Similar to 2017/18, Audit Scotland requires us to consider the adequacy of the College's preparations for EU withdrawal. This will include forming an overall judgement on the College's preparedness at 31 March 2019 and any subsequent updates.</p>

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3. Timing and deliverables; fees

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3. Timing and deliverables



We deliver our audit in accordance with the timeline set by the College, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

	Audit Activity	Deliverable	Expected Timing
MAR	<ul style="list-style-type: none"> Review of current issues impacting the College throughout the audit process 	Periodic current issues return submission	22 March 2019 8 November 2019
APR			
MAY	<ul style="list-style-type: none"> Audit planning and setting scope and strategy for the 2018/19 audit 	Annual Audit Plan	23 May 2019
JUNE	<ul style="list-style-type: none"> Walkthrough visit 	Completion of internal documentation	3 June 2018
AUG	<ul style="list-style-type: none"> Review progress of the NFI exercise 	Submit NFI questionnaire	30 June 2019
SEPT	<ul style="list-style-type: none"> Year-end substantive audit fieldwork on unaudited financial statements 	Audited financial statements	September - October 2019
OCT			
NOV	<ul style="list-style-type: none"> Conclude on results of audit procedures and finalise Annual Audit Report Issue opinion on the College's financial statements 	Issue Annual Audit Report Submit Audit Scotland minimum dataset request	31 December 2019
DEC			

3. Fees



The audit fee is determined in line with Audit Scotland's fee setting arrangements, set out in recent communications to all audited bodies in line with their publication on 'Our Approach to setting audit fees' (http://www.audit-scotland.gov.uk/uploads/docs/um/audit_fee_approach.pdf).

Audit fees		
Component of fee:	2018/19	2017/18
Auditor remuneration	£21,110	£20,630
Pooled costs	£1,220	£1,320
Contribution to Audit Scotland costs	£1,280	£1,150
Total fee	£23,610	£23,100

We have agreed with management to set the auditor remuneration at £21,110 (2017/18: £20,630). This reflects the expected fee element. The total fee for the year is £23,610. All fees noted are inclusive of VAT.

The Audit Scotland expected fee is based on the assumption of no additional risks or issues to the core financial statements beyond the presumed risks required by the financial statements, and no additional wider scope risks. We have not identified any wider scope focus areas. Our audit fee has not been adjusted for any core financial statement audit matters at this stage. In 2018/19 we anticipate additional audit work required around the implications of a High Court ruling on Guaranteed Minimum Pensions and the College's valuation of fixed assets scheduled for the current year.

The audit fee is based not only on there being no additional risks to the financial statement audit but also on the timely delivery of all required information, including high quality draft financial statements and supporting schedules, in line with agreed delivery dates. Should these deliverables not be met, or there be a need to modify our opinion on the financial statements, we will seek additional fees to reflect the additional audit time required.

Appendices

- A – Code of Audit Practice: responsibilities**
- B – Required communications with the audit committee**
- C – Auditor independence**

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The Code of Audit Practice (the Code) summarises the responsibilities on all audited bodies falling within the public sector audit framework. We summarise these on this page.

Responsibilities of audited bodies

Corporate governance	<p>Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.</p>
Financial statements and related reports	<p>Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> ▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation. ▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures. ▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority. ▶ maintaining proper accounting records. ▶ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. <p>Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.</p> <p>Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
Standards of conduct / prevention and detection of fraud and error	<p>Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
Financial position	<p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> ▶ such financial monitoring and reporting arrangements as may be specified ▶ compliance with any statutory financial requirements and achievement of financial targets ▶ balances and reserves, including strategies about levels and their future use ▶ how they plan to deal with uncertainty in the medium and longer term ▶ the impact of planned future policies and foreseeable developments on their financial position.
Best Value	<p>The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.</p>

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

Relationships, services and related threats and safeguards

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We are not aware of any relationships between Ernst & Young LLP and the College that may reasonably be thought to bear on our independence as of the date of this letter.

As part of our considerations for any non-audit engagement, we review potential threats in respect of self-interest, self-review, acting as management and advocacy. There are no non-audit services provided to the College at this time in 2018/19 (2017/18: nil).

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate any potential threats identified and we therefore confirm that EY is independent and the objectivity and independence of Stephen Reid, your audit engagement partner and the audit engagement team have not been compromised.

Required communication	Our reporting to you
<p>Terms of engagement / Our responsibilities</p> <p>Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice</p>
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p>	<p>Annual Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	<p>Annual Audit Plan Annual Audit Report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Annual Audit Report</p>
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	<p>Annual Audit Report</p>
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	<p>Annual Audit Report</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring, if material.</p>

Required communication	Reference
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	<p>No such matters have been identified.</p> <p>Annual Audit Report (to be issued on completion of audit work) or as occurring, if material.</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p>Internal controls</p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring, if material.</p>
<p>Representations</p> <p>Written representations we are requesting from management and/or those charged with governance</p>	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring, if material.</p>
<p>Material inconsistencies</p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring, if material.</p>

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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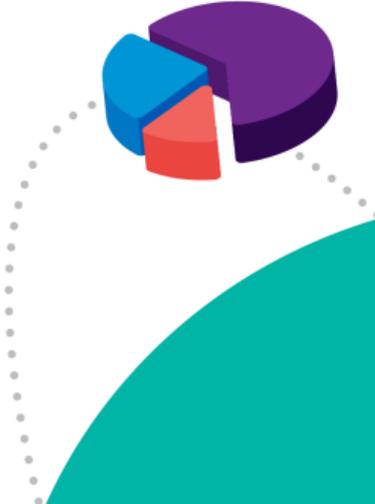
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Forth Valley College
Internal Audit Report 2018/19
People Strategy
March 2019



Scott-Moncrieff
business advisers and accountants



Forth Valley College

Internal Audit Report 2018/19

People Strategy

Executive Summary	1
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Audit Sponsor

*Ralph Burns, Head of
Human Resources*

Key Contacts

*Jennifer Nisbet, Learning &
Development Officer*

Audit team

*Elizabeth Young, Chief Audit
Executive
Claire Beattie, Audit Manager
Victoria Stirling, Auditor*

Executive Summary

Conclusion

Forth Valley College has robust and effective controls in place to ensure the successful implementation of the People Strategy. The strategy is supported by detailed operational plans that set out actions designed to facilitate achievement of the People Strategy objectives. The College has also carried out a detailed workforce planning review, based on past workforce trends as a means of predicting the likely future workforce requirements.

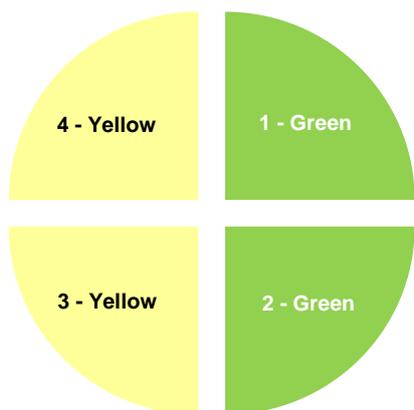
We have identified two minor opportunities for improvement that will allow the College to further strengthen the overall control environment in place in this area.

Background and scope

In line with their overall strategic aims, the College developed a People Strategy in 2016/17 which was formally approved by the Board in December 2017. The College identifies people as its most important asset, with staff costs accounting for roughly two thirds of total expenditure. The purpose of the strategy is to make a commitment to staff, recognise their value and provide strategic direction to the development of the workforce over the next 5 years.

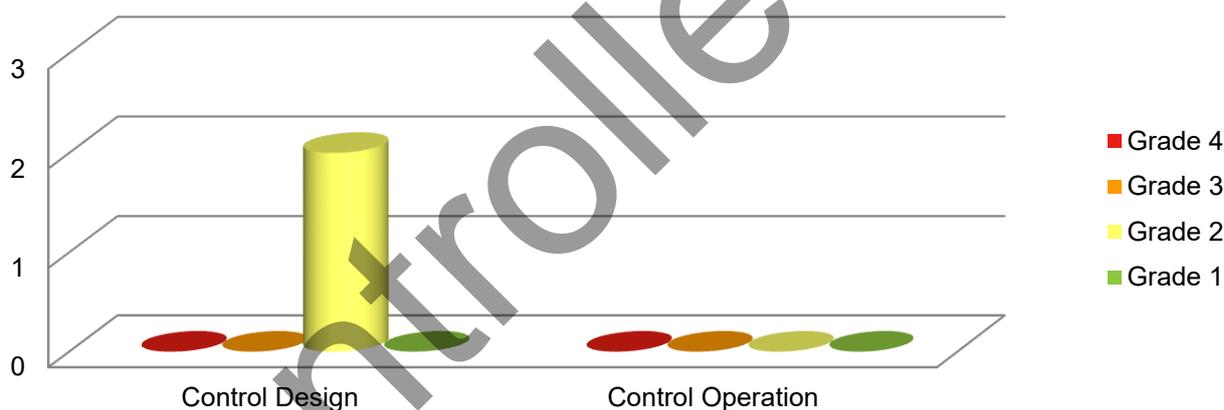
In accordance with the 2018/19 Internal Audit Plan, we reviewed the implementation of the College's People Strategy assessing SMART action planning, assessment of resource need, progress reporting and the use of feedback to inform future activity.

Control assessment



- 1. The College has implemented the People Strategy and incorporated its requirements within workforce planning arrangements
- 2. SMART operational plans set out the planned People Strategy actions;
- 3. There is regular progress reporting that provides key governance groups with updates on the delivery of strategic objectives and progress against action plans
- 4. Clear mechanisms are in place to collate feedback on the implementation of the People Strategy and this is used to inform future activity.

Improvement actions by type and priority



Two improvement actions have been identified from this review, both of which relate to improving the design of controls, as opposed to the operation of existing controls. See Appendix A for definitions of colour coding.

Key findings

Good practice

We have identified the following areas of good practice:

- The People Strategy clearly articulates the College's key strategic aim in respect of its people, being '*to provide staff with the freedom and scope to innovate and use creativity to enhance the learning experience for all*'. The Strategy sets out a number of detailed objectives and the underpinning actions that will be taken to ensure that these will be achieved.
- The People Strategy is supported by a detailed five-year implementation plan that sets out a number of SMART actions designed to ensure successful implementation of the strategic objectives, as outlined within the People Strategy. This demonstrates that the College has considered the steps it needs to take to achieve the People Strategy objectives and can monitor its progress towards achievement.

The College has developed a 'High Potential Development Framework' as part of the wider People Strategy Implementation Plan that aims to ensure the College is able to meet its strategic goal of '*instilling an energy and passion in our people, celebrating success and innovation*'. The framework aims to support future resource planning by providing a means to '*attract, identify, develop and retain skills*'. This approach demonstrates that the College's ongoing commitment to its people, beyond the life of the People Strategy.

Areas for improvement

We have identified the following areas for improvement which, if addressed, would strengthen the College's control framework in this area:

- The College has not yet agreed a reporting mechanism to inform key stakeholder groups on progress made implementing the People Strategy or the frequency with which reporting should take place.
- The College could improve the way it shares feedback on the People Strategy with the wider college staff base and communicate rectifying actions.

These are further discussed in the Management Action Plan below.

Impact on risk register

The strategic risk register as at December 2018 included the following risks relevant to this review:

- Risk 4: Strike action arising from National Bargaining Negotiations will impact on the College (Residual risk score: 12)
- Risk 9: Loss of key staff will impact on the College's operations (Residual risk score: 8)

Our review has not identified any significant findings that suggest that the scoring of these risks should be amended. We can provide assurance that controls are generally operating effectively and provide appropriate mitigation against the identified risks. Implementation of the findings identified in the Management Action Plan below will enable the College to further strengthen the existing controls in place.

Acknowledgements

We would like to thank all staff consulted during this review for their assistance and co-operation.

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Management Action Plan

Control Objective 1: The College has implemented the People Strategy and incorporated its requirements within workforce planning arrangements



Green

1.1 No weaknesses identified

Forth Valley College has developed a People Strategy covering the five-year period 2017-22. The strategy is supported by an operational plan that sets out a number of actions to enable the College to achieve the overarching aims of the People Strategy. We note that the People Strategy was not approved by the College Board until December 2017; therefore no supporting actions in the operational plan were undertaken in advance of this date. We have reviewed the operational plan post-December 2017 and confirmed that the College has made good progress in implementing actions, in line with the originally agreed timescales, thus facilitating contribution towards the wider People Strategy objectives.

The People Strategy is also directly linked to the College's overall Strategic Plan and seeks to create 'a highly talented, diverse and motivated workforce who are empowered and engaged through working in a developmental, collaborative, forward thinking and dynamic working environment'.

The People Strategy sets out the overall approach to meeting the current and future needs of the College; encompassing 'individual development, succession planning and creating a future ready workforce capable of meeting the demands of a dynamic and unpredictable environment'. In response to this, the College has undertaken a detailed workforce planning review which includes analysis of past workforce trends as a means of forecasting future resourcing needs over the short, medium and longer term. The workforce planning review is therefore designed to ensure that the College has the required information in place to support decision making over its workforce, thereby enabling achievement of the approach articulated in the People Strategy.

Control Objective 2: SMART operational plans set out the planned People Strategy actions;

2.1 No weaknesses identified

The College has developed a detailed five-year operational plan that sets out a number of SMART actions to deliver the People Strategy objectives. The plan sets out six key areas of focus:

- Professional Development
- Leadership Development
- High Potential Development
- Well-being, Engagement and Diversity
- Core Competencies and Standards
- Lecturing Skills Development

SMART actions are grouped under each of these key focus areas, with a responsible action owner and timescale allocated in each case.

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Control Objective 3: There is regular progress reporting that provides key governance groups with updates on the delivery of strategic objectives and progress against action plans



Yellow

3.1 People Strategy progress reporting

The College has been working to agree the most appropriate format for People Strategy progress reports since its launch in 2017. The Head of Human Resources currently prepares updates for the Human Resources Committee however these do not clearly articulate the progress made toward implementing individual objectives.

We are aware that the Head of Human Resources intends to report to the College Board in May 2019 on progress made implementing the People Strategy. The College has not however assessed the information requirements of other key stakeholder groups regarding progress updates.

Risk

There is a risk that issues affecting the implementation of the People Strategy are not identified on a timely basis caused by a failure to ensure that all key stakeholder groups are provided with regular, timely and detailed progress reporting. The College may be unable to achieve the overall aims of the People Strategy as a result.

Recommendation

The College should map the key stakeholder groups with an interest in delivery of the People Strategy and consult with these groups to identify the level and frequency of reporting that each group requires. Once agreed, the College should ensure that progress reports are prepared on a timely basis and provide sufficient information to allow an assessment of progress towards implementation of individual People Strategy objectives to be made.

Grade 2
(Design)

Management Action

The College has always had a staff consultation medium via LNCC meetings with both recognised unions. This allows staff representatives to question and put forward ideas for any relevant area and similarly for management to inform or seek feedback. As part of the People Strategy a Listening to Employees Forum was introduced. This was an open invite to staff to participate in a discussion on areas that are of interest to them with a view that questions would be put to relevant managers and departments to either highlight opportunities or to gain understanding as to why we operate in the manner we do. This is a new concept for the college and is still in the formative stages. However this is an ideal medium in which to debate the progress of the People Strategy following the reporting to the HR Committee and to gain an understanding of the key concerns or ideas from staff.

The People Strategy has a long term vision and similarly the plan takes a long term approach to the actions undertaken to meet its objectives. Due to this aspect, it is recommended completing a bi-annual report, coinciding with the HR Committee meeting dates and covering the 6 sections of the 5 year plan. This report should show actions and progress in relation to each section of the 5 year plan, highlight deviations from that plan and rationale for this. The first such report was presented at the April 2019 HR Committee. This recommendation is now complete.

Action owner: Andrew Lawson

Due date: May 2019

Control Objective 4: Clear mechanisms are in place to collate feedback on the implementation of the People Strategy and this is used to inform future activity.



Yellow

4.1 Development of a consistent feedback format

The College set up a 'Listening to Employees' group in March 2018 that provides a platform for staff to provide feedback to management on any issues with implementation of the People Strategy. This group has a specific aim to improve communication between staff and management, which is a key aim of the People Strategy. We have identified however that the College does not have a mechanism to ensure that feedback obtained from the 'Listening to Employees Group' has been acted on and communicated to the wider college staff.

Risk

There is a risk that the College is unable to demonstrate that it has acted upon feedback on the implementation of the People Strategy, or wider staff issues. The College may therefore be unable to implement the necessary improvement actions, which could threaten the overall successful implementation of the People Strategy

Recommendation

The College should agree a formal process for ensuring that feedback obtained from the 'Listening to Employees' group is communicated to College staff including any remedial actions that have been agreed in response.

Management Action

Grade 2
(Design)

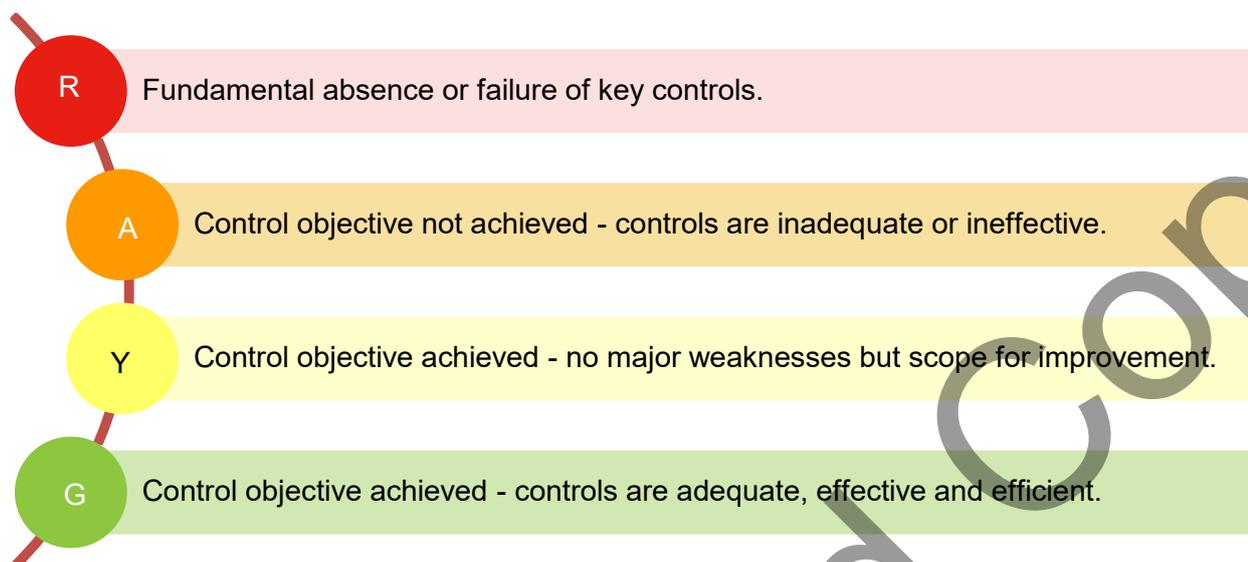
The Listening to Employees Forum is currently forming into its preferred operational state with lessons learned on how best to communicate and gather information on the topics raised. Giving ownership to the staff participating is fundamental to its success and it should not be seen as a management or HR driven event but be given status as an employee driven forum. Thus it is recommended that the meeting continues with a Director chairing to demonstrate the value seen in the event and that minutes from the meeting are published on SharePoint and made available for all staff to review. These minutes, confirmed by the Director, will detail the findings and feedback from management on the topics raised at the previous meeting, the topics raised and the discussion at the meeting itself, and on actions for the members to take forward and report back at the next meeting. Thus there is structure, clear commitment from the College, a degree of independence for the committee, and transparency on actions taken. In addition the progress made with the forum will be included within the report to the HR Committee. The new approach is being presented to the Listening to Employees group in May 2019 for their approval.

Action owner: Andrew Lawson

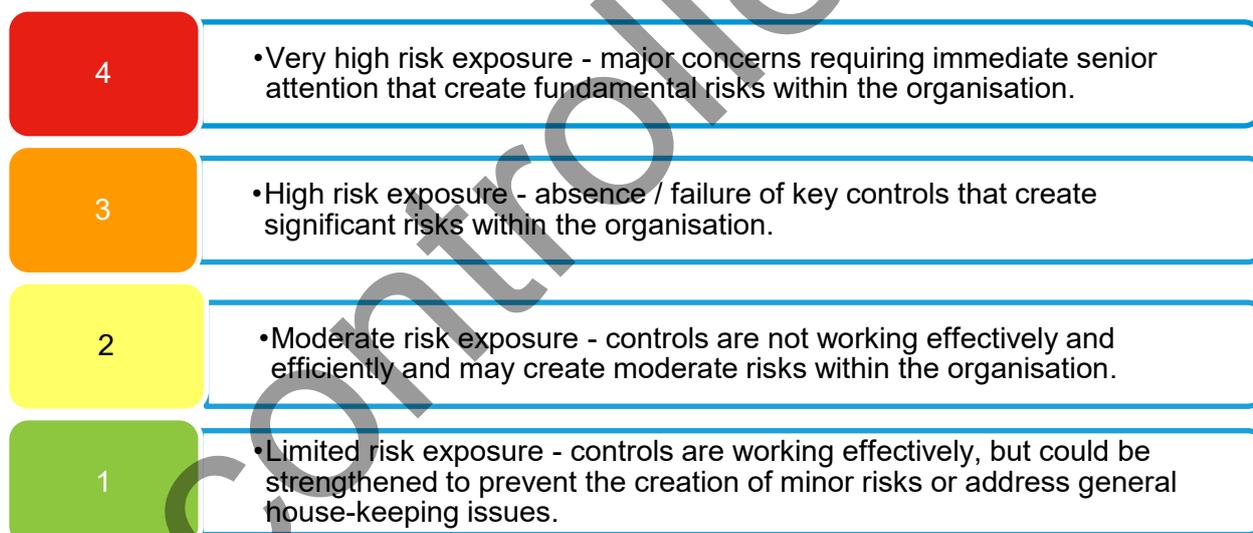
Due date: May 2019

Appendix A – Definitions

Control assessments



Management action grades



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Forth Valley College

Mental Health Services

February 2019



Scott-Moncrieff
business advisers and accountants



Forth Valley College

Internal Audit Report 2018/19

Mental Health Services

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<i>Audit Sponsor</i>	<i>Key Contacts</i>	<i>Audit team</i>
<i>Andrew Lawson, Depute Principal and Chief Operating Officer</i>	<i>Mhairi Shillinglaw, Head of Equalities, Inclusion and Learning Services Jean Duff, Student Services Manager</i>	<i>Elizabeth Young, Director Claire Beattie, Audit Manager Christopher Young, Auditor Cameron Smith, Audit Assistant</i>

Executive Summary

Conclusion

Forth Valley College's arrangements to identify and support students with mental health issues are operating effectively. We have identified three areas for improvement to further develop these arrangements. These include developing a training plan for all relevant staff, establishing a clear reporting mechanism of activity to enable scrutiny of performance and identification of trends, and ensuring student assessment criteria are aligned across the different support services.

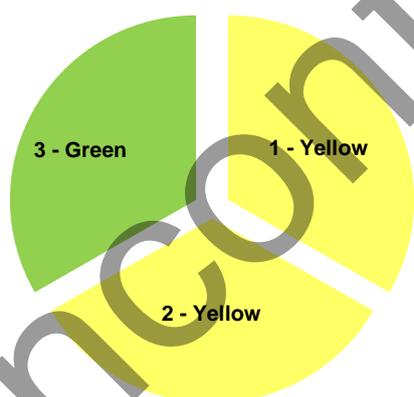
Background and scope

The College has approximately 14,500 students across three campuses each academic year. With such a high number of students, there will always be a proportion that require additional mental health support throughout their studies. For this reason, it is important that staff are able to identify those who may be struggling and offer appropriate support and guidance either themselves or through the formal support services by the College.

In line with the 2018/19 Internal Audit Plan, we have assessed the College's arrangements for delivering mental health services. Our review has focused on how staff identifies students with potential mental health issues and provide additional support to those students, including use of the formal support services provided by the college.

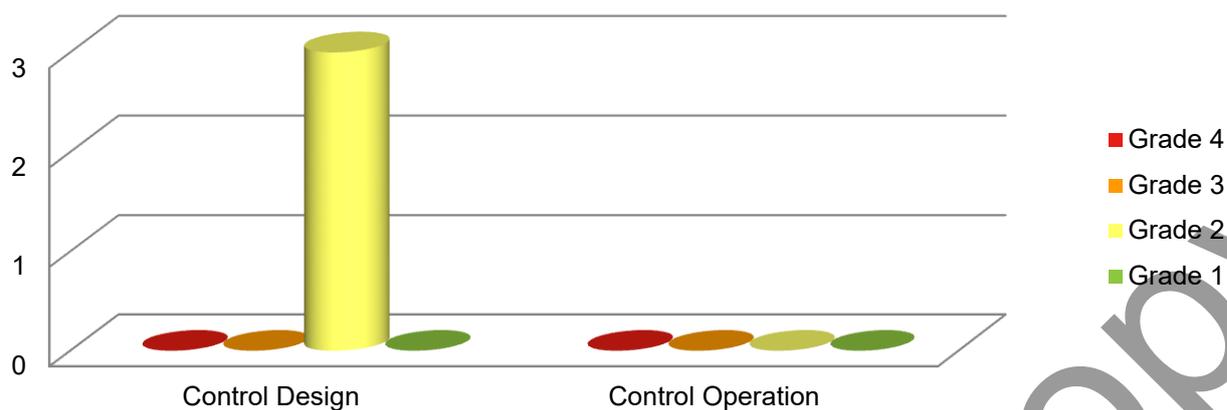
Control assessment

- 1. Staff receive appropriate training and guidance to help them to identify students who may need additional support.



- 2. There are clear channels that staff can refer students to if they think they may need additional support.
- 3. The College provide easy to find, clear guidance on how to access the support available to students.

Improvement actions by type and priority



Three improvement actions have been identified from this review, all of which relate to the design of controls themselves. See Appendix A for definitions of colour coding.

Key findings

Good practice

We have identified a number of areas of good practice through our audit fieldwork:

- The College has a range of support mechanism in place and a number of staff dedicated to supporting students throughout their college experience.
- There is a set approach for how support staff contact students, carry out needs assessments and create a support plan/refer onto other staff. We carried out sample testing over a random selection of students and confirmed the approach was being followed as expected. In addition, we confirmed that in all cases, students are provided with tailored support plans based on their individual needs.
- For students who are not identified as needing additional mental health services, the College has a weekly class where life skills are taught. Within this class there are specific teaching materials around health and wellbeing, including mental health. The College is ensuring the entire student population is aware of mental health and its importance to their college experience.
- The College communicates the mental health services available to students via a number of mechanisms including posters, wellbeing toolkits, the student intranet 'Moodle and the College website.

Areas for improvement

We have identified a number of areas for improvement which, if addressed, would strengthen the College's control framework. These include:

- Identifying training needs for all student facing staff, tailored to their individual role to support them in highlighting students who may require additional support;
- Establishing a regular reporting mechanism regarding the use of mental health support services and ensuring any management information that is available can be collated and communicated; and
- Ensuring the approach to student assessment is aligned across all support services to enable consistent outcomes.

These are further discussed in the Management Action Plan below.

Impact on risk register

As at September 2018, the Audit Committee did not identify any risk on their risk register which links directly to this review.

Acknowledgements

We would like to thank all staff consulted during this review for their assistance and co-operation.

Management Action Plan

Control Objective 1: Staff receive appropriate training and guidance to help them to identify students who may need additional support.

Yellow

1.1 Wider Staff Training

There are a number of staff across the College with responsibility for aiding students who may need additional support. These groups include Learning Development Facilitators (LDF), Learning Mentors (LM), Learning Advisers (LA), Learning Development Workers (LDW) and teaching staff.

We identified that different levels of training have been delivered to these groups. Some staff have extensive training, some are experienced but have no evidence of CPD in updating their mental health awareness and others have received very little or no training. We have been unable to confirm that the College has identified the appropriate level of training for each of these groups to have received.

Risk

There is a risk that signs of mental health issues may go unnoticed and students do not receive the necessary additional support, should staff receive insufficient training. Alternatively students may incorrectly be referred to the process when there are other more appropriate support avenues available, overburdening the services and impacting their effectiveness.

Recommendation

The College should develop a training plan for all staff involved in supporting students with additional needs that is tailored to their individual role. This should include mental health awareness and the avenues of support available both within and outwith the College to ensure that staff are able to appropriately direct students. Where training is mandatory, staff completion should be appropriately monitored and reported.

Management Action

Grade 2
(Design)

An overarching Mental Health and Wellbeing Action Plan for FVC, covering students and staff will be created. This would link to the recent Student Mental Health Agreement (SMHA) and the Mental Health Learning Framework, part of the People Strategy. The Plan is a requirement in the college regional outcome agreement with the Scottish Funding Council.

Action owner: Mhairi Shillinglaw

Due date: October 2019

Control Objective 2: There are clear channels that staff can refer students to if they think they may need additional support.



Yellow

2.1 Mental Health Services Reporting

There is currently no mechanism to ensure that information on mental health services is regularly presented to the Board or relevant committee. We noted that a number of ad-hoc reports on the operation of the services have been produced across the last couple of years. The Head of Equalities, Inclusion and Learning Services also provides a monthly snap shot to the Heads of Service, however this covers the entire department, and there is only a short consideration for mental health.

By monitoring quantitative data on the use of support services, the College will be able to assess how successful key stages of the process are operating and pinpoint any potential areas for improvement. Measures could include, for example:

- Number of enrolled 'inactive' students (identified as requiring additional support, but not engaged with a Learning Development Facilitator);
- Number of students referred to support services;
- Time taken from initial referral to first meeting;
- Number of students who have withdrawn from engagement with support services

The College is currently in the process of drafting a Mental Health Services Strategy, with the first draft to be due for the end of March. Key performance measures should be identified alongside all strategic objectives.

Risk

A lack of reporting mechanism makes it difficult for the College to monitor the operation of the support services offered and identify trends across the students engaging with them. As a result, the College may miss opportunities to improve processes and ensure that their services are appropriately directed.

Recommendation

Alongside the development of the Mental Health Services strategy, key measures and performance indicators should be identified. Reporting mechanisms should be agreed upon and implemented to ensure that information is presented on a regular and timely basis to the appropriate forum.

Management Action

Work with key services (Learning Support; Wellbeing; Learner Advisers) to standardise approaches to information gathering, sharing and reporting, utilising where possible the most effective systems already available to do this, e.g., Unit E/ELS database as well as the new Triple S system. Agree with Leadership team the best regular reporting streams and have in place to implement in AY 2019/20.

Grade 2
(Design)

Action owner: Andrew Lawson/Mhairi Shillinglaw **Due date:** August 2019

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2.2 Student Assessments

There are a number of support functions within the College, each with their own documented operational process. When they initially engage, the support service assesses students' needs to determine the level of priority and the nature of support required. Students may then be referred to other services within the College as a result. We noted that the checklists used to perform these assessments vary across the different services.

For example, a Learning Adviser (LA) will assess a student against nine key areas, ranging from history of need support to their current financial stability and overall impact on College experience, determining the priority and nature of support required. In response to this, they may refer the student to the counselling service (external to the College), who will then perform their own assessment to determine whether the student requires counselling. Their checklist used includes 34 questions which are in line with best practice, and is graded on a different scale to the LA checklist. This may result in instances where a LA refers a student as needing counselling but overall the counsellor disagrees, which could be a distressing experience for the student. Of 86 students referred to counselling in the current academic year, 21 were withdrawn from the service (24%).

Risk

There is a risk that support staff within the College are not correctly identifying students as requiring counselling due to the different approaches to student assessment. High priority students may not have the necessary and timely access to the services they required as a result of this increase in demand. There is a more prominent risk surrounding the student welfare going through this process and the College could face significant reputational damage if this was not appropriately safeguarded throughout the process

Recommendation

Whilst we recognise that college staff are not professional counsellors, the College should ensure that the internal student assessment approach and the criteria for referring a student to external counselling are as consistent as possible with the counsellors assessment criteria, to minimise the number of incorrect referrals.

In referral cases where the counsellor feels that the counselling is not necessary or appropriate, the College should aim to understand the reasoning behind this. This can be used as a learning tool to further improve services.

Management Action

Grade 2
(Design)

We have increased our counselling provision in the past month as a result of the increase in demand on the service. We will undertake a full review of the referral system we have in place and the sign posting activity we have in place with external provides with a view to improving the referral systems and ensure that those most in need can be refereed as quickly as possible

Action owner: Andrew Lawson

Due date: December 2019

Control Objective 3: The College provide easy to find, clear guidance on how to access the support available to students.



Green

No weaknesses identified

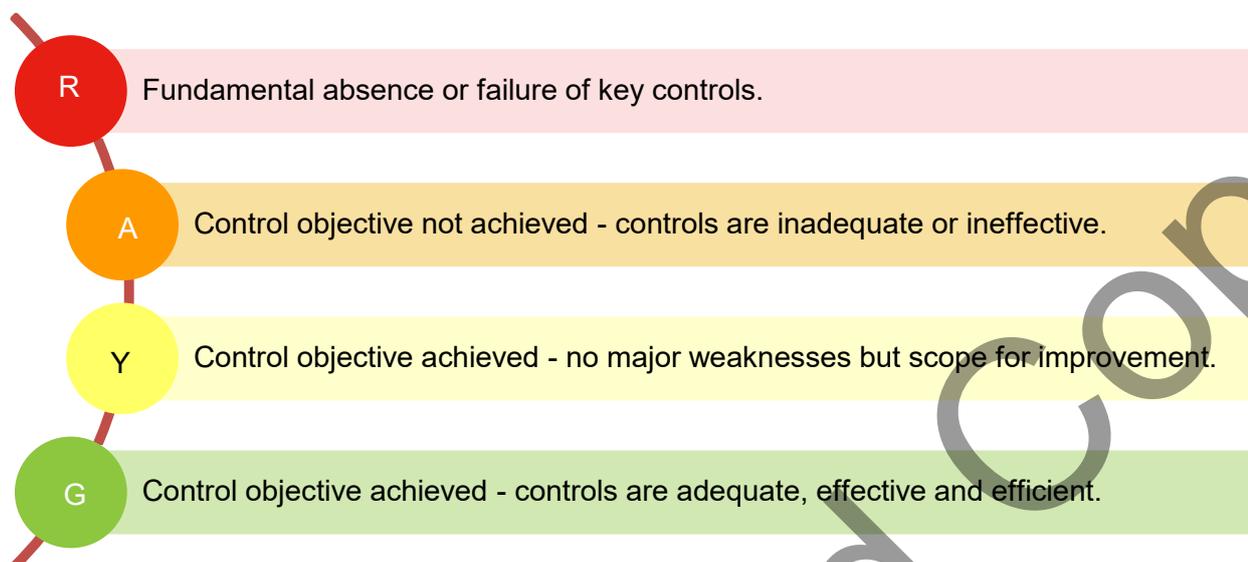
Information on the support services offered is available on the College website and student intranet. In addition, information and guidance is available to students through Sharepoint and advertised throughout the campus.

The College offers courses on “Essential Life Skills” that includes sessions on health and wellbeing. This is aimed at all students, ensuring that support is also highlighted to students who are not currently engaged with support services.

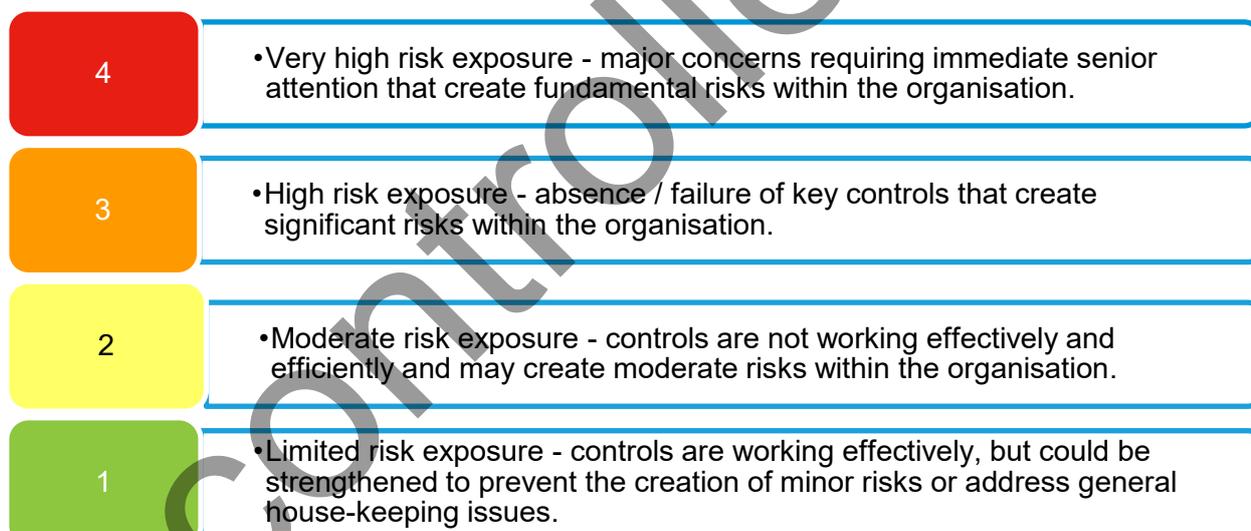
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Appendix A – Definitions

Control assessments



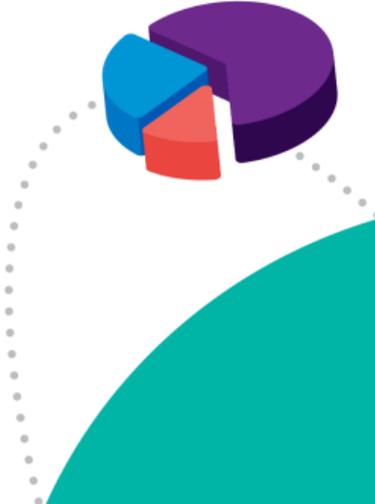
Management action grades



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Forth Valley College Internal Audit Report 2018/19

Project Management

April 2019



Scott-Moncrieff
business advisers and accountants



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Forth Valley College

Internal Audit Report 2018/19

Project Management

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Audit Sponsor	Key Contacts	Audit team
<i>Alison Stewart, Vice Principal Finance and Corporate Affairs</i>	<i>David Logue, Project Director Claire Shiels, Assistant Director of Estates Development Gordon Berry, Project Manager</i>	<i>Elizabeth Young, Chief Audit Executive Claire Beattie, Audit Manager Victoria Stirling, Internal Auditor</i>

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Executive Summary

Conclusion

The controls in place within Forth Valley College for managing and overseeing the new Falkirk Campus reflect good practice, have been well designed and are operating effectively. These include appropriate project, governance and risk management arrangements. Although the project will not now achieve its original completion date, we have confirmed that there has been appropriate oversight and governance over this project change.

Background and scope

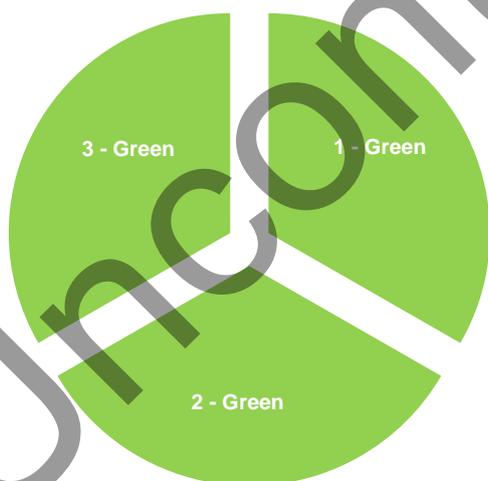
Forth Valley College are in the process of building a new £78 million replacement campus in Falkirk. This is to complete their estates programme which includes new build campuses in Stirling and Alloa. Key project partners include the Scottish Government, Scottish Funding Council, Scottish Futures Trust, Forth Valley College Foundation and AECOM. 83% of funding for the new campus is being supplied by the Scottish Government (£65m of £78m).

It is essential that the project management function is operating effectively and has robust controls in place to ensure that the project deadlines are met and best value for money is being achieved.

In line with the 2018/19 Internal Audit Plan, we have reviewed ongoing project management arrangements and preparations for transfer of college services to the new building.

Control assessment

- 1. Roles and responsibilities of those involved with project management are clearly defined and are understood in light of key staff changes
- 2. Risks and issues logs are in place and these are actively managed throughout the duration of the project
- 3. There is regular reporting on project progress, including comprehensive explanations and action plans where delays or overruns have been incurred.



Key findings

Good practice

Forth Valley College's procedures reflect good practice in a number of areas:

- There is a clear governance structure in place that defines roles and responsibilities of FVC including technical advisors AECOM and contractors.
- The Falkirk Campus Project Board meet monthly to oversee the project. Its membership includes members of the Board of Management, FVC Senior Management, AECOM, Scottish Funding Council and Scottish Futures Trust. Additionally, the Estates Executive Group (EEG) meet internally every two weeks.
- There is a bespoke risk register and issue action tracker in place that is regularly reviewed, maintained and updated.
- Progress reports are produced monthly by AECOM and Balfour Beatty and are presented at the Falkirk Campus Project Board (FCPB) monthly for discussion. We have reviewed a sample of these reports and confirmed that the content is satisfactory.
- The project team identified an overrun at an early stage; this issue has been documented, tracked and a recovery programme prepared to remediate it.
- AECOM produce monthly cost reports providing an overview of the costs and progress in the month.

Impact on risk register

Whilst there is no specific recording of the risks relevant to this project within the Corporate Risk Register, we note that detailed and bespoke risk identification, documentation and management procedures are in place and that the Falkirk Campus Project Board maintain, and take responsibility for, the overarching risk arrangements.

Acknowledgements

We take this opportunity to thank all staff consulted during this review for their assistance and co-operation.

Management Action Plan

Control Objective 1: Roles and responsibilities of those involved with project management are clearly defined and are understood in light of key staff changes



Green

No reportable weaknesses identified

Forth Valley College put in place a project management team for the duration of the new campus build that includes a Project Director, Assistant Director and Project Manager. This ensures an appropriate level of oversight and liaison between the College and the technical advisors (AECOM) that are responsible for managing the contract. The team structure is defined within the Project Execution Plan (PEP), which we have obtained and reviewed. We also obtained the current 'Project Directory' that details each member of staff involved in the project, their job title and what organisation they are working for. The roles and responsibilities of the technical advisors and contractors have been clearly defined within their contracts.

There is an appropriate governance oversight forum in place through the Falkirk Campus Project Board (FCPB). The FCPB works to an approved remit and Terms of Reference that set out the purpose, membership, specific duties and levels of authority for FCPB, together with meeting details including frequency, quorum and arrangements for the distribution of papers. FCPB membership includes representation from the FVC Board of Management, FVC senior management, Scottish Futures Trust, Scottish Funding Council and AECOM. We have reviewed minutes from these meetings and confirmed that the discussions are appropriate to the Project and that the content covers all key aspects of the Project progress.

Control Objective 2: Risks and issues logs are in place and these are actively managed throughout the duration of the project; and



Green

No reportable weaknesses identified

The project management team has a risk register and issues action tracker in place that identify both technical construction risks for the project and risks to the college in terms of finances, resources, reputation and business continuity. The risk register and issue action tracker is reviewed, updated and circulated on a monthly basis and then discussed in detail at project team and FCPB meetings. We reviewed meeting minutes that showed that emerging and potential risks are discussed at these meetings, with detailed discussion around the risk issues raised.

For each risk identified, the risk register clearly sets out the stage of the contract, a description, consequences, risk assessments, mitigating actions planned, progress, review target dates and other relevant commentary. Each individual risk and action has an owner, with the Project Director retaining oversight for monitoring any outstanding actions. We carried out sample testing across the risk register and issue tracker and confirmed that the College has consistently updated risks with explanations within set timescales. We further note that where targets have not been met, there is appropriate explanation and commentary.

Control Objective 3: There is regular reporting on project progress, including comprehensive explanations and action plans where delays or overruns have been incurred.


 Green

No reportable weaknesses identified

AECOM prepare monthly board reports and flash reports as an overview on progress of the project. Balfour Beatty (BBCL) also prepare monthly contractor reports. The reports are presented to the Estates Executive Group and the FCPB and provide a detailed and comprehensive suite of information on progress to date, next steps, commercial issues and risk assessments. The College, AECOM and BBCL also meet monthly for project meetings. These cover the contractors' progress reports and comments from any of the team. They also cover the actions from the previous month's minutes.

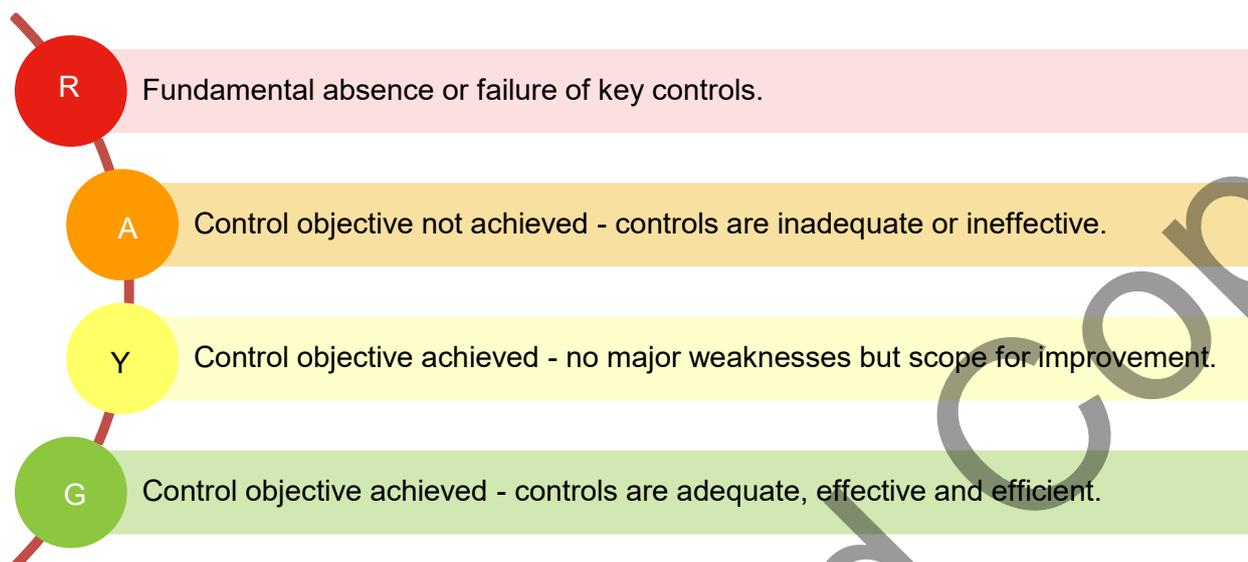
The project is currently behind schedule and will not achieve its original completion date. This was identified early on in the project and has been factored into cost and progress estimates. A revised completion date has been agreed with a recovery plan in place that is being overseen by BBCL. At the time of the audit fieldwork, the revised plan for the completion date of the Contract Programme had been agreed in principal but not formally approved. Given this, the College will wish to ensure this is approved by the FCPB as soon as is practical.

The College manages costs and budgets through a change control system documented within the Project Execution Plan (PEP). There is no minimum threshold for budget variances as a zero cost would be treated as a change control contractually and all changes are monitored through the Change Control Tracker. AECOM prepare budget cost reports for the FCPB and internal cost reporting is prepared on a monthly basis within the New Falkirk Campus Cost Report.

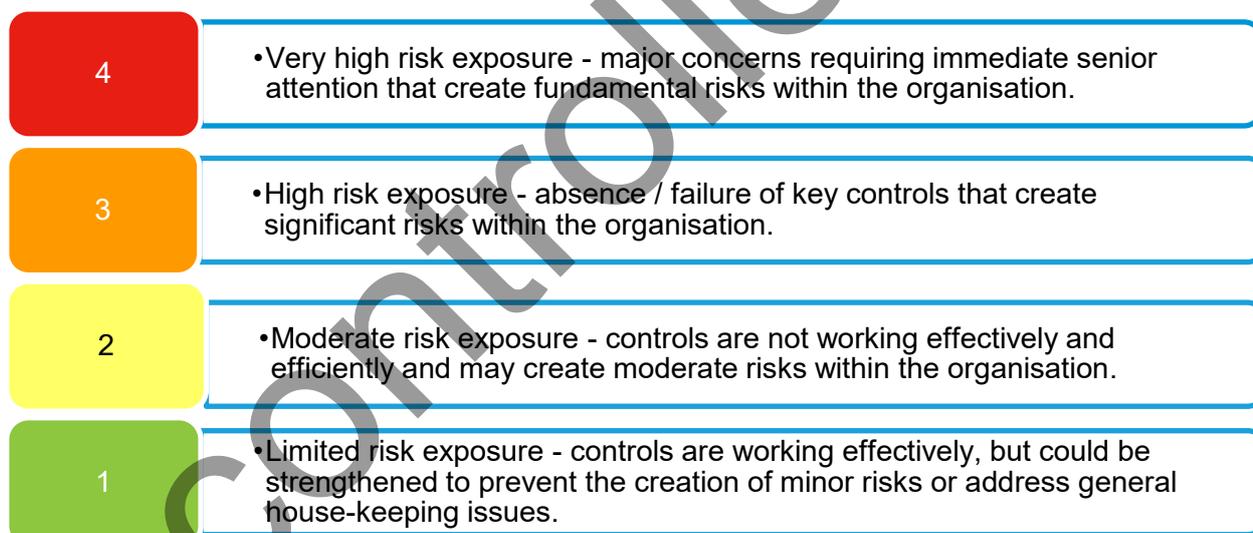
Meetings are held internally with the FVC Associate Assistant Director of Estates Development and Finance Manager/ Vice Principal Finance & Corporate Affairs in relation to project finances. We reviewed a sample of cost reports and confirmed that they have been tabled at the appropriate forum on a timely basis and that the use of the change control process is operating with all costs being recorded through the tracker. At the time of the audit fieldwork the overall budget had not changed from the start of the project.

Appendix A – Definitions

Control assessments



Management action grades



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Forth Valley College
2018/19 Internal Audit Plan
Progress Report

May 2019



Forth Valley College

Internal Audit 2018/19

Progress Report – May 2019

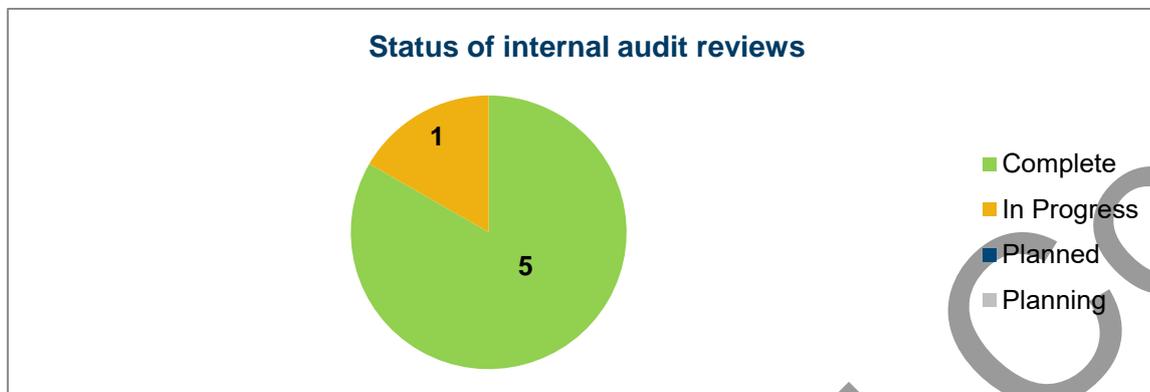
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Summary of Progress

This paper provides a summary of internal audit activity during the year to date and confirms the reviews planned for the coming quarter, identifying any changes to the original annual plan.

Progress against annual audit plan



As at May 2019, five audits are complete:

- People Strategy;
- Mental Health Service;
- Project Management (New Campus);
- Credits; and
- Student Funds.

The student experience audit and the Annual Report are in progress and scheduled for the next Audit Committee meeting.

Appendix 1 sets out the status of the 2018/19 internal audit programme.

Plan for next quarter

We will present the following reports to the November 2019 Audit Committee:

- Student Experience – Curriculum Planning
- Follow-up
- Annual Report 2018/19

Action for Audit Committee

The Audit Committee is asked to note the contents of this report and to approve the plan for the next quarter. We also invite any comments on the format or content of this report. Contact details are as follows:

Elizabeth Young, Engagement Lead elizabeth.young@scott-moncrieff.com 0131 473 3500

Claire Beattie, Audit Manager claire.beattie@scott-moncrieff.com 0131 473 3500

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Audits Completed

The table below sets out the reports completed during 2018/19. There were no Grade 4 recommendations (very high risk exposure) and there are no control objectives assessed as red. Full definitions for the colour coding and the grading structure are set out below.

Review	Control objective assessment	No. of issues per grading			
		4	3	2	1
Credits/Student Funds	N/A*				
Project management (new campus)					
Mental Health Services				3	
People Strategy				2	

*The report format followed a different style and therefore there were no colour-coded control objectives.

Definitions

We use the following definitions to describe the effectiveness of controls in the area under review.

Assessment	Definition
RED	Critical: fundamental absence or failure of key controls
AMBER	High: control objective not achieved - controls are inadequate or ineffective
YELLOW	Moderate: Control objective achieved - no major weaknesses but scope for improvement
GREEN	Low: Control objective achieved - controls are adequate, effective and efficient

Recommendations are graded as follows:

Ranking	Definition
4	Very high risk exposure - major concerns requiring immediate senior management attention.
3	High risk exposure - absence / failure of key controls.
2	Moderate risk exposure - controls not working effectively and efficiently.
1	Limited risk exposure - controls are working effectively, but could be strengthened.

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Appendix 1 – Progress against 2018/19 Internal Audit Plan

Shaded areas denote completion.

Name of report	Status	Audit start	Draft report issued	Management responses	Final report issued	Planned Audit C'ttee meeting	Actual Audit C'ttee meeting
Project Management (New Campus)	Complete	April 19	April 19	April 19	April 19	April 19	May 2019
Mental Health Service	Complete	February 19	March 19	May 19	May 19	May 19	May 2019
People Strategy	Complete	February 19	March 19	May 19	May 19	April 19	May 2019
Student Experience – curriculum planning	Ongoing	May 19				May 19	November 2019
Credits/	Complete	August 18	September 18	October 18	October 18	November 18	December 18
Student Funds	Complete	August 18	September 18	October 18	October 18	November 18	December 18
Follow up	Complete	5 August 19				November 19	November 2019
Annual report	-	-	-	-	-	November 19	November 2019

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1. Purpose

To update members on progress with the implementation of recommendations contained within internal and external audit reports.

2. Recommendation

That members note the content of the report and associated appendix.

3. Background

The College monitors progress against internal and external audit recommendations and reports on progress to each meeting of the Audit Committee.

4. Summary of Changes

The current audit recommendations are detailed in full in Appendix 1. The table below represents a summary of the current position of these recommendations as at 10 May 2019.

The dates used to determine whether a recommendation has passed its' implementation date comes from the "Revised Completion Date" column in Appendix 1 attached to this report.

There are 3 recommendations covered in Appendix 1.

Since the last meeting of the Audit Committee, 1 of the 3 recommendations have reached a stage where the College considers them to be complete. Completed recommendations are highlighted in grey in the appendix.

The College is seeking an extension for recommendations id 1 and id 2 and appendix 1 contains further information on this.

	Grade 1	Grade 2	Grade 3	Total
Live within date	0	0	0	0
Live recommendation passed implementation date	0	2	0	2
Completed since last report to Committee	0	1	0	1

5. Financial Implications

There are no unexpected financial implications expected. All recommendations made to the College have either no cost (i.e. changes to existing procedures) or have been incorporated into College budget setting processes.

6. Equalities

Assessment in Place? – Yes No

Monitoring of audit recommendations does not require equalities assessment. Where a recommendation does have an equalities impact through the amendment to policy, each individual policy will be assessed in line with College procedure.

7. Risk

Please indicate on the matrix below the risk score. Risk is scored against Impact and Likelihood as Very Low through to Very High.

	Likelihood	Impact
Very High		
High		
Medium		
Low	X	X
Very Low		

Any risk to the College would arise from the failure to implement agreed audit recommendations. Regular monitoring, along with accountability for each recommendation being assigned an SMT and action owner; ensures this does not occur.

Risk Owner – Alison Stewart

Action Owner – Stephen Jarvie

8. Other Implications –

Please indicate whether there are implications for the areas below.

Communications – Yes No

Health and Safety – Yes No

Paper Author – Stephen Jarvie

SMT Owner – Alison Stewart

ID	Audit Name	Date of Audit	SMT Owner	Action Owner	Recommendation	Management Response	Priority	Evaluation	Scheduled Completion Date	Revised Completion Date	Evidence	Completed
1	Non-Pay Expenditures and Creditors	Feb-17	Alison Stewart	Senga McKerr	We support management's plans to review the College's Scheme of Delegation. The revised document should clearly set out current purchasing approval processes and financial authorisation limits.	The College's Scheme of Delegation is currently being reviewed and will be revised to set out the relevant approval processes and authorisation limits. This will be made available to all staff on the public area of the Finance section in SharePoint.	Grade 2 (Operation)	<p>May 2019 - due to the budget process being brought forward by SMT, and staff changes within the department, we have been unable to address this audit point. Completion date is requested to be moved to September 2019 so that this can be completed over the summer</p> <p>November 2018 - The Board approved a high level Scheme of Delegation in September 18. We plan to update the Operations Scheme of Delegation once staffing has settled in the department. Completion date is requested to be moved to April 19.</p> <p>August 18 - a revised Scheme of Delegation will be considered as part of the Board strategic session on 20/21 September 2018</p> <p>June 18 - The high level Scheme of Delegation is being drafted and will go to the Sep 18 Board for approval. The Operations Scheme of Delegation is on hold until the Board approval, and will be amended following the change to Directors of Curriculum. Completion dates is requested to be moved to Dec 2018.</p> <p>Nov 17 - Board short life working group being arranged early in 2018 to review scheme of delegation, accordingly, completion date is requested to be moved to end March 2018.</p> <p>August 17 - this has been put on hold until after the Board Effectiveness workshop which will consider delegated authority.</p> <p>May 17 - An initial draft of the template has been prepared and is with the Director of Finance for review. Once the layout is agreed the template will be populated with the staff members details and limits and circulated for comment</p>	31/07/2017	30/09/2019		
2	GDPR Compliance	Aug-18	David Allison	Laura Calder	Data Inventories - We recommend that Management agrees a timescale for academic departments to complete data flows and data inventories. The timescales and resources required to complete this work should be included in the work plan recommended	Initial meetings have taken place with all teaching Departments where any personal data stored outwith core systems has been captured, and any risks identified. The task of documenting data flows and populating our data inventory will be included as work outstanding within the GDPR Workplan.	Grade 2 (Operation)	<p>May 2019 - The GDPR project is also working with the Document Management Project, the Transition project and the Scanning project. Currently major work is being carried out with all departments carrying out a housekeeping exercise of old paper documentation at Falkirk and work to create a bespoke scanning process for existing paper documentation. Business and Communities have been the first academic department to have removed old documentation and now there is a process being created to scan existing documents and explore digitalisation of manual paper processes. An accurate audit will be carried out once this has been created. Engineering and Science are working on this exercise just now. The driver of all projects will be the move to the new Falkirk Campus.</p> <p>November 2018 - continuing to meet with Academic departments and updating Information Asset Register. As part of the process working with departments to look at creating a departmental Document Retention Guide. Rob McDermott is in discussion with cross sector working group looking at a standardised retention guide for student assessment material which will provide appropriate guidance for departments.</p>	31/03/2019	29/11/2019		
3	Review of Credits Return 2017/18	Sep-18	David Allison	David Allison	Distance and Flexible Learners - There is a risk that the College may not be able to evidence satisfactory engagement and the achievement of the required date for credits purposes in the case of distance learners. The College should consider agreeing a set of whether flexible or distance learners have achieved the required date for credits purposes with teaching areas	While sampling of this area identified no students where evidence couldn't be provided of progress, we agree that this is an area where guidance could be enhanced to ensure that Credits are only claimed for progressing distance and flexible students, and will look to implement during this academic session.	Grade 2 (Operation)	May 2019 - Supplementary Credits Guidance note written for Distance and Flexible Learners.	28/02/2019		G:\Credits\Supplementary Credits Guidance - Distance or Flexible.docx	28/02/2019

1. Purpose

To inform members of the College's requirement to participate in the National Fraud Initiative (NFI).

2. Recommendation

That the Committee

- confirms its commitment to the principal of the NFI
- reviews and comments on the completed self evaluation questionnaire
- notes the actions the College is taking in relation to its participation in the NFI.

3. Background

The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. The reports provided by NFI mean that public bodies can take action if any fraud or error has taken place, and it allows auditors to assess fraud prevention arrangements, which those bodies have.

NFI matches a range of electronic information held on the College's finance and payroll systems, to identify potential inconsistencies or circumstances that could indicate fraud or error within and between public and private sector bodies. These bodies include police authorities, local probation boards, fire and rescue authorities as well as local councils, colleges and a number of private sector bodies.

A match does not automatically mean there is a fraud or error and investigations are required to enable the correct conclusion to be drawn for each match reported. The College will investigate reported matches and record appropriate outcomes on a secure web application based on our investigations.

4. Data request and submission

2018/19 is the first year Audit Scotland has requested that Forth Valley College participate in the National Fraud Initiative. The data required was limited to payroll / purchase ledger transaction and standing data. In the case of payroll data, this consisted of current employee standing data including NI numbers along with YTD earnings. For purchase ledger information, the College supplied address and transaction histories for the period 1 October 2015 to 30 September 2018. This data was submitted in October 2018.

5. Privacy Notices

The Cabinet Office uses the term "Fair Processing Notices" to refer to informing individuals that their data is being shared. The Information Commissioner's Office promotes the use of the term "privacy notice" to describe the provision of this information, and this is the terminology that we

use. The College followed the guidance from Audit Scotland's website and duly published a notice on the College intranet, and sent out a College wide email from the VP Finance & Corporate Affairs.

6. Outcomes

The College is currently working on establishing processes for reviewing the outcomes notified by NFI. Where an outcome is recorded, the College is required to investigate the query and respond via the website as to the outcome of the investigation. Senior staff will undertake these investigations. The Vice Principal of Finance and Corporate Affairs has overall responsibility for the review of NFI data.

7. External Audit Review

As part of the external audit programme Ernst & Young are required by Audit Scotland to review the NFI arrangements in place at the College. The College has been asked to complete Audit Scotland's questionnaire in relation to the NFI and a copy of the completed questionnaire is attached for review by the Committee.

8. Next steps

- Complete the review of outcomes for the 2018/19 NFI and present findings to Audit Committee (September 2019)
- Update the Anti-Fraud & C corruption Policy to include reference to the NFI (September 2019)
- Present external audit findings on NFI to Audit Committee (November 2019)

9. Financial Implications – None

10. Equalities - N/a

11. Risk

Please indicate on the matrix below the risk score. Risk is scored against Impact and Likelihood as Very Low through to Very High.

	Likelihood	Impact
Very High		
High		
Medium		
Low		x
Very Low	x	

Failure to participate in the NFI could result in frauds/errors going undetected. Review of matched outcomes will mitigate against this.

Risk Owner – Alison Stewart
Paper Author – Alison Stewart

Action Owner – Senga McKerr
SMT Owner – Alison Stewart

1. Purpose

To inform members that Scottish Government issued a revised Audit and Assurance Committee Handbook in April 2018 and provide details thereof.

2. Recommendation

That members consider the revised handbook and how it should be applied by the Audit Committee of Forth Valley College.

3. Background

An effective Audit Committee is essential to a strong corporate governance culture within public and private sector organisations. The revised handbook sets out the fundamental principles relating to the role, membership and work of Audit Committees within the public sector. It also emphasises the sources available to Audit Committees in addition to internal and external audits, while recognising that a degree of flexibility, pragmatism and proportionality will be needed in applying the guidance in the handbook to individual organisations.

Any significant non-compliance with the principles in the Handbook should be explained and reported in the annual Governance Statement.

4. Key Considerations

The Handbook sets out four good Practice Principles for Audit & Assurance Committees.

1. Membership, independence, objectivity and understanding
2. Skills
3. Role and scope
4. Communication & Reporting

The most significant change in the revised handbook is the increased responsibility of audit committees to develop an assurance framework, and to understand the various sources of assurance it receives and the role that each assurance provider plays. The revised handbook advocates a “three lines of assurance” model to articulate an appropriate assurance framework. The full requirements are covered in Chapter 4 of the Handbook.

Appendix 1 summarises the requirements of the handbook under the 4 key principles. Areas where Forth Valley College do not fully comply are highlighted. Those highlighted in green are deemed acceptable deviations, while those highlighted in amber are deviations, which require action. There are no deviations highlighted red, which would be required to be reported as non-compliant in the annual Governance Statement.

The key actions that the Audit Committee will need to undertake are

- Issue letter of appointment for co-opted members
 - Develop an assurance framework
 - Consider training audit committee members on the new assurance framework
 - Review its Terms of Reference
-

- Complete the Self-Assessment Checklist

5. Financial Considerations – None

6. Equalities – N/a

7. Risk

Please indicate on the matrix below the risk score. Risk is scored against Impact and Likelihood as Very Low through to Very High.

	Likelihood	Impact
Very High		
High		
Medium		x
Low	x	
Very Low		

By not adhering to the good practice principles for Audit Committees there is a risk that the Governance of the College could fall below that which is expected of a public sector body. By taking forward the key actions noted in S4 of the paper this will reduce this risk.

Risk Owner – Ken Thomson

Action Owner – Alison Stewart

Paper Author – Alison Stewart

SMT Owner – Alison Stewart

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Appendix 1

1. Membership, independence, objectivity and understanding

The committee should be independent and objective, with members having a good understanding of their role and objectives and priorities of the organisation.

- The Committee should comprise at least 3 members with no executive responsibilities
- Chair should be a non-executive member of the Board with relevant experience.
- There should be at least 1 other non-executive member of the Board, and independent members may be appointed to ensure an appropriate mix of skills and experience.
- The Executive and managers' roles are to attend, provide information, and participate in discussions as appropriate.
- The Accountable Officer and the Chief Operating Officer should routinely attend the Committee, as should Internal and External Audit.
- The Committee should be able to sit privately without any non-members present if they so wish.
- It is good practice for the Chair to meet the Accountable Officer, the Vice Principal of Finance & corporate Affairs, Internal Audit and External Auditor outside formal meetings.
- It is common for representatives of sponsoring bodies (within the Scottish Government) to attend Audit and Assurance Committee meetings, however they should not be members of the Committee. Considered to be N/a for FVC.
- Members should declare conflicts of interest, with the Chair normally determining the appropriate action.
- All members of the Audit and Assurance Committee should have a clear understanding of: what is expected of them – also including performance appraisal; criteria for termination of membership; duration of appointment and renewal; and training.
- The terms of appointment should be clearly set out at the time of appointment (model letter of appointment in Handbook).

Forth Valley College already largely complies with these requirements – Co-opted members should receive a formal letter of appointment, Board appointment letters cover all other members.

2. Skills

The committee should have an appropriate mix of skills and knowledge.

- The Committee needs a range of skills and experience relevant to various aspects of risk, governance and control.
 - At least one member of the committee should have recent and relevant financial experience
 - The committee should identify, periodically review, and agree with the Board and Accountable Officer, the other skills required.
 - The committee should be empowered to co-opt members or procure advice to provide specialist skills, knowledge and experience that the committee needs.
-

- All committee members should receive appropriate training and development to enable them to understand and execute their role of the Committee effectively.
- The Chair should ensure that all committee members have an appropriate engagement and understanding of the organisation, its objectives, business needs, priorities and risk profile.

A competency framework for an Audit and Assurance Committee is provided in the Handbook.

- All members of the committee should have, or acquire as soon as possible after appointment:
 - understanding of the objectives of the organisation and current significant issues for the organisation;
 - understanding of the organisation's structure, including key relationships such as that with a sponsoring directorate/portfolio or a major partner;
 - understanding of the organisation's culture;
 - understanding of any relevant legislation or other rules governing the organisation;
 - **understanding of the organisation's three lines of assurance and sources of assurance;**
 - broad understanding of the government environment, particularly accountability structures and current major initiatives.
- The committee should collectively possess:
 - knowledge/skills/experience (as appropriate and required) in:
 - accounting;
 - risk management;
 - audit;
 - technical or specialist issues pertinent to the organisation's business.
 - experience of managing similar sized organisations and people management skills;
 - understanding of the wider relevant environments in which the organisation operates;
 - detailed understanding of the government environment and accountability structures.

Forth Valley College largely complies with these requirements – a greater understanding and implementation of the “three lines of assurance” has already been identified as a development for 2019/20. The Chair should consult with the Nominations Committee to review the skills mix required on the Audit Committee, and with members to review training needs.

3. Role and scope

The committee should review the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of Financial Statements and the Annual Report; with its work defined in its terms of reference.

3.1 Supporting the Board and Accountable Officer:

Effective assurance supports the Accountable Officer and the Board in focussing on the right issues and identifying which aspects of risk management, governance and control that are functioning effectively and which need improvement.

- The Committee should help the Accountable Officer and Board to formulate their assurance needs and consider how well assurance received meets these needs. Formulation of the assurance needs is key to determining the resource to be dedicated to delivery of assurance.
- A well-designed assurance framework identifying all the key sources of assurance in the organisation can help formulate assurance needs and delivery. Advice on developing assurance frameworks is available in the Treasury Assurance Framework Guidance document. The ‘three lines of assurance’ conceptual model is recommended;
 - First line: management assurances from “front line” or business operational areas;
 - Second line: oversight of management activity, including effective management information, separate from those responsible for delivery, but not independent of the organisation’s management chain; and
 - Third line: independent and more objective assurance including Internal Audit and from external bodies.
- The overall provision of assurances should be reviewed to test whether: the nature and scope of the assurance providers’ activity meets the Accountable Officer’s and Board’s assurance needs; the credibility and independence of each provider; and whether conclusions of assurance providers are reasonable.
 - The committee should proactively in commission assurance work if it identifies any significant risk, governance and control issues which are not being subjected to sufficient review, or weaknesses remedied.
 - Deep dives can be used to understand the greatest risks and threats to the organisation, and gain assurance on their management.

A “prompt” list of questions for Audit and Risk Assurance Committees is provided in the Handbook (Annex F).

- The Committee may draw attention to areas where:
 - risk is being appropriately managed (no action needed);
 - risk is inadequately controlled (action needed to improve control);
 - risk is over controlled (resource being wasted);
 - there is lack of evidence to support a conclusion (more assurance work may be needed).
- Assurance should be obtained on risks across the organisation, including outsourced and shared services, and risks that cross-organisational boundaries (e.g. major projects).

The priorities for assurance are considered every year as part of the internal audit planning. The main area for development by Forth Valley College is a more formal assurance framework based on the “three lines of assurance” model.

Internal Audit is carried out primarily for the benefit of the Accountable Officer and Board/Executive of the organisation. Internal Audit should operate in accordance with the Public Sector Internal Audit Standards and should provide an annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control processes. The Auditor General is responsible for securing the external audit of most public-sector bodies and reporting on their financial health and performance. Audit work is carried out either by Audit Scotland staff or appointed firms of auditors.

- The role of the Audit and Assurance Committee in relation to Internal Audit should include advising the Accounting Officer and Board on:
 - the Internal Audit strategy and plans (including how well they reflect the organisation's risk exposure)
 - the adequacy of Internal Audit resources
 - results of internal audit work
 - the annual Internal Audit opinion and annual report; and
 - the performance of Internal Audit (including conformance with the applicable standards)

Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK and Ireland) and professional requirements. Audited annual financial statements including the independent external auditors' reports, and reports by the Auditor General are sent to Scottish ministers to be laid before the Scottish Parliament.

- The Committee should regularly engage with the external auditors and consider the results of external audit work, the proposed actions against audit recommendations, the planned external audit activity and the coordination between internal and external audit.

Forth Valley College already complies with these requirements.

3.3 Governance

- The Committee should understand the governance arrangements that support achievement of the organisation's strategies and objectives, especially:
 - the vision and purpose;
 - mechanisms to ensure effective organisational accountability, performance and risk management;
 - roles, committee and other structures that discharge responsibilities, decision making and reporting;
 - ethics and values;
 - communication of management information among the board and appropriate areas of the organisation; and
 - relations with relevant governmental bodies.

Forth Valley College already complies with these requirements – these topics are discussed at board meetings.

3.4 Risk management & the control environment

- The Committee should:
 - understand the organisation strategy, operating environment and the associated risks;
 - understand the role and activities of the Board in relation to managing risk.
 - discuss with the Board its policies, attitude to and appetite for risk to ensure these are appropriately defined and communicated so that management operates within these parameters.
 - understands the framework for risk assessment, management and assurance and the assignment of responsibilities
 - critically challenge and review the risk management and assurance framework, to provide assurance that the arrangements are working.
 - critically challenge and review the adequacy and effectiveness of control processes in responding to risks within the organisation's governance, operations, compliance and information systems.

Forth Valley College already complies with these requirements.

3.5 Financial management & reporting

- The committee should consider significant accounting policies and any significant estimates and judgements, if possible before the start of the financial year. It should review the clarity and completeness of disclosures in the year-end financial statements.
- The committee should expect a comprehensive overview of the financial statements by the VP Finance & Corporate Affairs, including comparisons with the prior year and current year budget, and an explanation for any issues arising. In reaching a view on the accounts, the committee should consider:
 - key accounting policies and disclosures;
 - assurances about the financial systems which provide the figures for the accounts;
 - the quality of the control arrangements over the preparation of the accounts;
 - key judgements made in preparing the accounts;
 - any disputes arising between those preparing the accounts and the auditors;
 - reports, advice and findings from external audit (especially the Audit Completion Report).

Forth Valley College already complies with these requirements.

3.6 Terms of Reference

- The Committee's terms of reference should be agreed by the Accountable Officer/Board and made publicly available (including on the organisation's website). **The terms of reference should be reviewed annually alongside the performance of the committee and should not conflict with the guidance in this handbook. (Model terms of reference are suggested in the handbook as well as a self-assessment checklist).**
 - The committee should not have any executive responsibilities or be charged with making or endorsing any decisions. Relevant decisions should be made by the Accountable Officer and Board.
-

- The committee should have appropriate authority to require any member of the organisation to report on the management of risk or on the control environment
- The Committee should provide timely feedback on its work to the Accountable Officer and Board. A schedule of the Committee's agreed delegations from the Board, and the mechanisms for feedback and assurance, should be formally documented.
- **To fulfil their role, most committees will need to meet at least four times a year.**
- The Committee will require access to funding to cover the costs incurred in fulfilling its role
 - remuneration and working expenses of its members where applicable;
 - training;
 - specialist external advice or opinions when required; and,
 - as agreed with the organisation, external review of the effectiveness of the committee.

Forth Valley College already has a terms of reference – it should be reviewed to ensure compliance with the updated handbook.

4. Communication & Reporting

The committee should ensure that it has effective communication with all key Stakeholders.

- A report should be prepared for the Accounting Officer and Board after each meeting covering: the business of the committee, and advice on any issues which they consider the Accounting Officer and Board should action. If the minutes of the committee meeting are used as the report, care should be taken in their presentation to highlight the advice being provided. These reports should be copied to Internal and External Auditors.
 - The committee should have good relationships with those it seeks briefings from, and those it provides assurance to.
 - The committee should provide an open and honest Annual Report, timed to support the preparation of the Governance Statement. This report is likely to be used by the Accountable Officer and Board in preparing their own reports as required by the Scottish Government.
 - The Annual Report should summarise the committee's work for the year past, and present its opinion about:
 - the effectiveness of governance, risk management and control;
 - the comprehensiveness of assurances in meeting the Accountable Officer's and Board's needs;
 - the reliability and integrity of these assurances;
 - whether the assurance available is sufficient to support the Accountable Officer and Board in their decision making and their accountability obligations;
 - the implications of these assurances for the overall management of risk;
 - any issues the committee considers pertinent to the Governance Statement and any long term issues the committee thinks the Accounting Officer and/or Board should give attention to;
 - financial reporting for the year;
 - the quality of both Internal and External Audit and their approach to their responsibilities;
-

- the committee's view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed.
- The Audit and Assurance Committee's report should take into account any other relevant assurance reports.
- There should be mutual rights of access between the Chair of the Audit Committee, the Accountable Officer, Internal Audit and the External Auditor. Periodic discussions outside of the formal meeting help to ensure that expectations are managed and that there is mutual understanding of current risks and issues.

Forth Valley College already complies with these requirements. The Annual Report from the Audit Committee may need further development to ensure all of the above areas are covered. The Committee should complete the Self-Assessment checklist.

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Audit and Assurance Committee Handbook

March 2018



Scottish Government
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Foreword

An effective Audit and Assurance Committee* is essential to a strong corporate governance culture within public and private sector organisations.

The role is a challenging one and needs strong, independent members with an appropriate range of skills and experience. It will benefit from a strong collaborative relationship with the organisation to ensure that the committee gets the support and information that it needs. The committee will also need to act as the conscience of the organisation. This means providing insight and strong constructive challenge where required, such as on risks arising from fiscal and resource constraints, cyber-attack and transformation programmes. It also means challenging the agility of the organisation to respond to emerging risks.

This revision of the Handbook** sets out the fundamental principles with explanatory good practice notes, relating to the role, membership and work of Audit and Assurance Committees in those organisations to which the Scottish Public Finance Manual is directly applicable. This includes the core Scottish Government and bodies sponsored by the Scottish Government such as Executive Agencies, Non Ministerial Departments, Non Departmental Public Bodies and Other Significant Bodies.

The Handbook emphasises the sources of assurance available to Audit and Assurance Committees in addition to internal and external audit. We encourage all organisations within the Scottish Government family to define their assurance needs, map their various sources of assurance and develop an integrated approach to assurance which will secure best value for the public purse and embed best practice principles within their organisation.

A degree of flexibility, pragmatism and proportionality will be needed in applying the guidance in this Handbook to individual organisations. For example, the use of the term “Board” referred to in chapter 4 should be interpreted in the context of the “On Board” Guidance (March 2017), which defines the differences between Statutory and Management Advisory Boards. Subject to these caveats, any significant non-compliance with the principles in this Handbook should be explained and reported in the annual Governance Statement.

We commend this Handbook to you.

Leslie Evans

Alyson Stafford

Permanent Secretary

Director General Scottish Exchequer

* Alternatively referred to as the Audit Committee / Audit and Risk Committee / Audit and Risk Assurance Committee. For the purposes of this Handbook the term Audit and Assurance Committee will be used in a generic context.

**The *Scottish Government Audit and Assurance Committee Handbook* draws on, and is consistent with, generally accepted principles concerning corporate governance and the role of audit and assurance committees. Relevant source publications include:

- HM Treasury: Audit and Risk Assurance Committee Handbook (March 2016)
- HM Treasury: Corporate Governance in Central Government Departments: Code of Good Practice (July 2011)
- OPM and CIPFA: Good Governance Standard for Public Services (2005)
- Financial Reporting Council: The UK Corporate Governance Code (April 2016)
- Scottish Public Finance Manual
- On Board: A Guide for Members of Statutory Boards in Scotland (March 2017)
- On Board: A Guide for Members of Management Advisory Boards (March 2017)

Glossary of Terms

AO	Accountable Officer
CoA	Certificates of Assurance
DG	Director General
IAD	Internal Audit Directorate
NDPB	Non Departmental Public Body
NMD	Non Ministerial Department
NXD	Non-Executive Director
OCIO	Office of the Chief Information Officer
PSIAS	Public Sector Internal Audit Standards
SG	Scottish Government
SGAAC	Scottish Government Audit and Assurance Committee
SPCD	Scottish Procurement and Commercial Directorate
3LA	Three Lines of Assurance

Chapter 1: Good Practice Principles for Audit and Assurance Committees

Principle 1: Membership, independence, objectivity and understanding

The committee should be independent and objective; in addition, each member should have a good understanding of the objectives and priorities of the organisation and of their role as a committee member.

Principle 2: Skills

The committee should corporately own an appropriate skills mix to allow it to carry out its overall function.

Principle 3: Role and Scope

The committee should support the Accountable Officer and Board by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report.

The scope of the committee's work should be defined in its terms of reference and should encompass all the assurance needs of the Accountable Officer and Board. Within this, the committee should have particular engagement with the work of Internal Audit, risk management, the External Auditor, and financial management and reporting issues.

Principle 4: Communication and Reporting

The committee should ensure that it has effective communication with all key stakeholders, for example, the Board, the Head of Internal Audit, the External Auditor and other relevant assurance providers e.g. Risk Manager. In addition, the role of the Chair and provision of appropriate secretariat support are important elements in achieving committee effectiveness. Good practice guidance on these roles is provided, respectively, in [Annex A](#) and [Annex B](#).

Chapter 2: Membership, Independence, Objectivity and Understanding

Independence

2.1 An effective Audit and Assurance Committee must have members who are both independent and objective. The Accountable Officer and Board should be supported by an Audit and Assurance Committee with no executive responsibilities, comprising of at least three members. The Chair should be a Non-Executive Member (NEBM) [sometimes called a Non-Executive Director (NXD)] with relevant experience. There should be at least one other NEBM/NXD on the committee; when there are insufficient NEBMs/NXDs to form the committee, independent external members will need to be appointed. The committee may also need to seek further independent, non-executive membership from sources other than the Board in order to ensure an appropriate level of skills and experience. These members are appointed to the Audit and Assurance Committee but not to the Board and the independence of the committee from an executive function should be its guiding ethos. In order to operate in an independent and competent manner, the committee should possess the requisite knowledge and skills to effectively engage with and challenge the organisation (see Chapter 4: Role and Scope).

Relationship with the Executive of the organisation

2.2 Executive members of the organisation should not be appointed to the Audit and Assurance Committee. The role of the executive managers is to attend, to provide information, and to participate in discussions, either for the whole duration of a meeting or for particular items.

2.3 The Accountable Officer and the Finance Director should routinely attend the Audit and Assurance Committee. It is also normal for the Head of Internal Audit and a representative of the External Auditor to attend. However, the strategic internal audit terms of reference, which forms the basis of the relationship between the body and internal audit, should also provide for the Audit and Assurance Committee to sit

privately without any non-members present for all or part of a meeting if they so wish.

2.4 It is also good practice for the Chair of the Audit and Assurance Committee to meet the Accountable Officer, the Finance Director, the Head of Internal Audit and the External Auditor's senior representative outside of the formal committee structure (see Chapter 5: Communication and Reporting).

Other participants

2.5 It is also common for representatives of sponsoring or sponsored bodies to attend Audit and Assurance Committee meetings (for example, a member of the core Scottish Government may attend the Audit and Assurance Committee of one of its Executive Agencies or bodies). However, such representatives should not be appointed as members of the committee.

Conflicts of interest

2.6 Normally the process for recording declarations of conflicts of interests in the Audit and Assurance Committee should mirror the processes used at Board level. Each member of the committee should take personal responsibility to declare proactively any potential conflict of interest arising out of business on the committee's agenda or from changes in the member's personal circumstances. The Chair should then determine an appropriate course of action with the member. For example, the member might simply be asked to leave while a particular item of business is taken; or in more extreme cases the member could be asked to leave the committee. If it is the Chair who has a conflict of interest, the Board or Accountable Officer should ask another member of the committee to lead in determining the appropriate course of action. A key factor in determining the course of action will be the likely duration of the conflict of interest: a conflict likely to endure for a long time is more likely to suggest that the member should leave.

Terms of appointment

2.7 All members of the Audit and Assurance Committee should have a clear understanding of:

- what is expected of them in their role, including time commitments;
- how their individual performance will be appraised, including a clear understanding of what would be regarded as unsatisfactory performance and the criteria which would indicate the termination of Audit and Assurance Committee membership should be considered;
- the duration of their appointment and how often it may be renewed; and
- training required and how this will be provided.

2.8 The terms of appointment of an Audit and Assurance Committee member should be clearly set out at the time of appointment. A model letter of appointment is set out at [Annex C](#). The letter should also specify what other activities the individual may or may not undertake in relation to the organisation. The impact on independence of any remuneration from other activities should be given careful consideration.

Chapter 3: Skills

The committee should corporately own an appropriate skills mix to allow it to carry out its overall function.

Range of skills

3.1 The committee is charged with ensuring that the Board and Accountable Officer of the organisation gain the assurance they need on risk management, governance and internal control. So, it needs a range of skills and experience relevant to various aspects of risk, governance and control. A competency framework for an Audit and Assurance Committee is at [Annex G](#).

3.2 Because of the importance of financial management and financial reporting to every organisation, at least one member of the committee should have recent and relevant financial experience. This experience should be sufficient to allow them to engage competently with financial management and reporting in the organisation, and associated assurances.

3.3 The committee should identify, and agree with the Board and Accountable Officer, the other skills required for committee effectiveness. These identified skills should inform the choice of members of the committee. The required skills set should be periodically reviewed.

3.4 Although Audit and Assurance Committee members are recruited for their individual skills, it is vital that they are able to work collaboratively.

Additional skills

3.5 The committee should be empowered to either:

- co-opt members for a period of time (not exceeding a year, and with the approval of the Board and/or Accountable Officer) to provide specialist skills, knowledge and experience that the committee needs at a particular time; (Co-opted members may be remunerated at an appropriate rate for the time and effort they are expected to contribute); or

- procure specialist advice at the expense of the organisation on an ad-hoc basis in order to support in relation to particular committee business. Budgets for such procurement should be approved by the Board and/or Accountable Officer.

Training and development

3.6 All committee members, whatever their status or background, will have training and development needs. Those who have recently joined the Audit and Assurance Committee will need induction training, either to help them understand their role; or if they have Audit and Assurance Committee experience elsewhere, to help them understand the organisation. In particular, those joining a public sector Audit and Assurance Committee for the first time will need training to help them understand public sector standards, especially those relating to governance and accountability and internal audit (PSIAS).

3.7 The Chair should, in addition, ensure that all committee members have an appropriate programme of engagement with the organisation and its activities to help them understand the organisation, its objectives, business needs, priorities and risk profile. Consideration should be given to underpinning such programmes with training and/or learning plans.

Chapter 4: Role and Scope

Supporting the Board and Accountable Officer

4.1 Accountable Officers and Boards have many issues competing for their attention. One of the challenges they face is knowing whether they are giving their attention to the right issues. Key to addressing this is assurance, defined as: “an evaluated opinion, based on evidence gained from review, on the organisation’s governance, risk management and internal control framework”

4.2 Assurance draws attention to the aspects of risk management, governance and control that are functioning effectively and, just as importantly, the aspects which need to be given attention to improve them. An effective risk management framework and a risk-based approach to assurance helps an Accountable Officer and Board to judge whether or not its agenda is focussing on the issues that are most significant to achieving the organisation’s objectives and whether best use of resources is being made. The Audit and Assurance Committee can help the Accountable Officer and Board to formulate their assurance needs, and then consider how well assurance received actually meets these needs by gauging the extent to which assurance on risk management is comprehensive and reliable. Assurance cannot be absolute so the committee will need to know that the organisation is making effective use of the finite assurance mechanisms at its disposal, targeting areas of greatest risk. This can include carrying out a ‘Deep Dive’ exercise of risks that the committee determine are key threats to the organisation.

4.3 Formulation of the specific assurance need is key to determining the resource that needs to be dedicated to delivery of assurance in the organisation. Key elements include:

- the strategic outcomes and objectives which the organisation is charged to deliver, and the associated risks and control mechanisms;
- the sources of assurance available; and
- the level of confidence required in assurances, including the extent to which the range of assurance providers can be relied on by Internal Audit in

delivering its overall opinion on risk, control and governance in accordance with the Public Sector Internal Audit Standards.

4.4 A well designed assurance framework will help. At its simplest, this will identify all the key sources of assurance in the organisation and seeks to orchestrate them to best effect. This can help to ensure that gaps are reduced or eliminated and unnecessary duplication avoided. A conceptual model that is often used to help to categorise the various sources of assurance is the ‘three lines of assurance’. By defining the sources of assurance in three broad categories, it helps to understand how the type and nature of the mechanisms can contribute to the bigger assurance picture:

- First line: management assurance from “front line” or business operational areas;
- Second line: oversight of management activity, including effective management information, separate from those responsible for delivery, but not independent of the organisation’s management chain; and
- Third line: independent and more objective assurance, including the role of Internal Audit and from external bodies (e.g. accreditation and Gateway reviews). Further detail of the role of Internal Audit is provided later in this chapter.

4.5 An understanding of the three lines of assurance can help the Audit and Assurance Committee to play a key role in helping the Accountable Officer and Board establish an optimum mix of assurance. For example, management and oversight assurance activities can be harnessed to provide coverage of routine operations, with Internal Audit activity more effectively targeted at riskier or more complex areas. As well as strengthening assurance arrangements, this helps the Audit and Assurance Committee to demonstrate added value to the organisation. Advice on developing assurance frameworks is available in the Treasury Assurance Framework Guidance document.

4.6 The overall provision of assurances to the Accountable Officer and Board should be reviewed by the Audit and Assurance Committee, which should constructively challenge:

- whether the nature and scope of the assurance providers' activity meets the Accountable Officer's and Board's assurance needs;
- the credibility and independence of each provider; and
- where appropriate, the actual assurances to test that sufficient reliable evidence and that conclusions are reasonable in the context of the evidence.

The committee should also be proactive in commissioning assurance work from appropriate sources if it identifies any significant risk, governance and control issues which are not being subjected to sufficient review, and in seeking assurance on weaknesses identified by reviews are actually remedied by management.

A "prompt" list of questions for Audit and Risk Assurance Committees to ask is provided at [Annex F](#).

4.7 The overall committee view may draw attention to areas where:

- risk is being appropriately managed (no action needed);
- risk is inadequately controlled (action needed to improve control);
- risk is over controlled (resource being wasted which could be diverted to other use); and/or
- there is lack of evidence to support a conclusion. If this concerns areas material to the organisation's operations more assurance work may be needed, subject to an assessment of costs and benefits.

4.8 Assurance should be obtained on risks across the organisation. The governance structure of the departmental family/group will therefore need to ensure that there is effective communication on risks and control to ensure appropriate visibility of and timely action on such matters as well as to feed into the annual Governance Statement.

4.9 Similarly assurance on the risk and control environment should also encompass services outsourced to external providers, including shared service arrangements, so that all key elements of the organisation are considered as parts of the wider organisation and business function.

4.10 It is also good practice to have reasonable oversight of risks that cross organisational boundaries, for example, in major projects. This could include a Chairs of Audit and Assurance Committee Forum. Any such forum should focus on assurances on cross organisational governance, risk and control arrangements.

Internal and external audit

4.11 For any government organisation there will always be two significant sources of independent and objective assurance: Internal Audit and External Audit.

4.12 The work of Internal Audit is carried out primarily for the benefit of the Accountable Officer and Board/Executive of the organisation and is likely to be the single most significant resource used by the committee in discharging its responsibilities. This is because the Head of Internal Audit, in accordance with the Public Sector Internal Audit Standards, has a responsibility to provide an annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control processes. There is consequently a major synergy between the purpose of the Head of Internal Audit and the role of the Audit and Assurance Committee.

4.13 In central government, the Auditor General is responsible for securing the external audit of most public sector bodies in Scotland and reporting on their financial health and performance. Audit work is carried out by Audit Scotland staff and appointed auditors including private firms. This includes the audits of financial statements as well as performance and Best Value audits. All external auditors appointed by the Auditor General are required to follow the Code of Audit Practice which outlines their responsibilities. Once appointed, auditors act independently in carrying out their responsibilities and in exercising professional judgement.

4.14 The role of the Audit and Assurance Committee in relation to Internal Audit should include advising the Accounting Officer and Board on:

- the Internal Audit strategy and periodic Internal Audit plans, forming a view on how well they reflect the organisation's risk exposure and support the Head of Internal Audit's responsibility to provide an annual opinion;
- the adequacy of the resources available to Internal Audit;
- the Internal Audit charter/terms of reference for Internal Audit;
- the results of Internal Audit work, including reports on the effectiveness of systems for governance, risk management and control, and management responses to issues raised;
- the annual Internal Audit opinion and annual report; and
- the performance of Internal Audit, including conformance with the applicable standards, expected performance measures, and the results of both internal and external quality assessments.

4.15 Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK and Ireland) and professional requirements. These include:

- undertaking statutory duties, and complying with professional engagement and ethical standards
- providing an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions
- reviewing and reporting on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports
- notifying the Auditor General when circumstances indicate that a statutory report may be required.

4.16 The Code of Audit Practice defines a wider scope for public audit that goes beyond the financial statements. This includes work that contributes to audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability. External auditors will report annually to those charged with

governance on the results of their work covering both the financial statements and wider scope audit work. Audited annual financial statements including the independent auditors' reports, and reports by the Auditor General are sent to Scottish ministers to be laid before the Scottish Parliament.

4.17 It is important that the Audit and Assurance Committee engages regularly with external audit. The committee should consider the results of external audit work and the proposed actions against audit recommendations. The committee should also consider planned external audit activity and enquire about the level of coordination and engagement between internal and external audit to ensure there is no unnecessary duplication of audit work.

Governance

4.18 It is essential that the committee understands how governance arrangements support achievement of the organisation's strategies and objectives, especially:

- the organisation's vision and purpose;
- mechanisms to ensure effective organisational accountability, performance and risk management;
- role definitions, committee and other structures to support effective discharge of responsibilities, decision making and reporting;
- promotion of appropriate ethics and values within the organisation;
- communication of management information, including on risk and control among the board and to appropriate areas of the organisation; and
- relations with ALBs including reporting functions to relevant AACs and Scottish Government.

Risk management and the control environment

4.19 It is also essential that the committee:

- understands the organisation's business strategy, operating environment and the associated risks, taking into account all key elements of the organisation as parts of an "Extended Enterprise";
- understands, where applicable, the role and activities of the Board (or equivalent senior governance/advisory body) in relation to managing risk;
- discusses with the Board its policies, attitude to and appetite for risk to ensure these are appropriately defined and communicated so management operates within these parameters;
- understands the framework for risk assessment, management and assurance and the assignment of responsibilities;
- critically challenges and reviews the risk management and assurance framework, without second guessing management, to provide assurance that the arrangements are actively working in the organisations; and
- critically challenges and reviews the adequacy and effectiveness of control processes in responding to risks within the organisation's governance, operations, compliance and information systems.

Financial management and reporting

4.20 The committee should consider significant accounting policies, any changes to them and any significant estimates and judgements, if possible before the start of the financial year. It should also review the clarity and completeness of disclosures in the year-end financial statements and consider whether the disclosures made are set properly in context.

4.21 The committee will not itself be able to review the accounts in detail in order to advise the Accounting Officer whether they are true and fair. Ideally, the committee should expect a comprehensive overview of the financial statements by the Finance Director, including comparisons with the prior year and current year budget, and an

explanation for any issues arising. In reaching a view on the accounts, the committee should consider:

- key accounting policies and disclosures;
- assurances about the financial systems which provide the figures for the accounts;
- the quality of the control arrangements over the preparation of the accounts;
- key judgements made in preparing the accounts;
- any disputes arising between those preparing the accounts and the auditors; and
- reports, advice and findings from external audit (especially the Audit Completion Report – ISA 260 Report).

Terms of reference

4.22 The committee's terms of reference should be agreed by the Accountable Officer/Board and made publicly available (including on the organisation's website). It is important that a balance is struck during meetings between corporate governance, risk management, control and financial reporting items. The terms of reference should be reviewed annually alongside the performance of the committee. Model terms of reference are suggested at [Annex D](#). A suggested self-assessment checklist is provided at [Annex H](#).

4.23 The responsibilities assigned to the committee should not provide any conflict with the guidance in this handbook, in particular by compromising independence. The committee should not have any executive responsibilities or be charged with making or endorsing any decisions, although it may draw attention to strengths and weaknesses in control and make suggestions for how such weaknesses might be dealt with. The overarching purpose of the committee is to advise the Accountable Officer and Board; it is then the Accountable Officer and Board that make the relevant decisions.

4.24 The committee should have appropriate authority to require any member of the organisation to report on the management of risk or on the control environment within their areas of responsibility, in general terms or in respect of specific issues, either by:

- attending a committee meeting; or
- providing written report(s) to the committee to help the committee in fulfilling its role.

4.25 The Accountable Officer and Board need adequate and timely feedback on the work of the committee in order to consider its contributions formally. A schedule of the committee's agreed delegations from the Board, and the mechanisms for feedback and assurance, should be formally documented.

4.26 To fulfil their role, most committees will need to meet at least four times a year. A model "core programme" of work for a Committee meeting four times a year is provided at [Annex E](#).

4.27 The committee will require access to funding to cover the costs incurred in fulfilling its role. The funding should be sufficient to:

- meet any remuneration and working expenses of its members (where applicable);
- meet the relevant training needs of its members;
- provide specialist (external) advice or opinions when required; and
- (as agreed with the organisation) provide external review of the effectiveness of the committee.

Chapter 5: Communication and Reporting

Communication between the Committee and the Board

5.1 The work of the Audit and Assurance Committee needs to be effectively communicated. After each meeting of the committee a report should be prepared for the Accounting Officer and Board to:

- summarise the business taken by the committee, explaining if necessary why that business was regarded as important; and
- offer the views of, and advice from, the committee on issues which they consider the Accounting Officer and Board should take action on.

5.2 If the minutes of the committee meeting are used as the report, care should be taken in their presentation to highlight the advice being provided. These reports should be copied to the Head of Internal Audit and the External Auditor (especially if the report contains advice about or to the auditors).

Improving relationships

5.3 It is important for the committee to have good relationships and communication with those it seeks briefings from, and those it provides assurance to. This ensures that it is effectively engaged with the organisation and able to fulfil its function. This should include where risks cross organisational boundaries, for example, in major projects.

Annual reports

5.4 The committee should provide an Annual Report, timed to support the preparation of the Governance Statement. This internal report needs to be open and honest in presenting the committee's views if it is to be of real benefit to the Accounting Officer and Board. This report is likely to be used by the Accounting Officer and Board in preparing their own report for publication in fulfilment of the reporting requirements of the Scottish Administration.

5.5 The Annual Report should summarise the committee's work for the year past, and present its opinion about:

- the effectiveness of governance, risk management and control;
- the comprehensiveness of assurances in meeting the Accountable Officer's and Board's needs;
- the reliability and integrity of these assurances;
- whether the assurance available is sufficient to support the Accountable Officer and Board in their decision taking and their accountability obligations;
- the implications of these assurances for the overall management of risk;
- any issues the committee considers pertinent to the Governance Statement and any long term issues the committee thinks the Accounting Officer and/or Board should give attention to;
- financial reporting for the year;
- the quality of both Internal and External Audit and their approach to their responsibilities; and
- the committee's view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed.

5.6 The Audit and Assurance Committee's report should take into account any other relevant assurance reports.

Bilateral communications

5.7 There should be mutual rights of access between the Chair of the Audit and Assurance Committee, the Accountable Officer, Head of Internal Audit and the External Auditor. Periodic discussions outside of the formal meeting help to ensure that expectations are managed and that there is mutual understanding of current risks and issues.

Annex A: The role of the Chair: good practice

A.1 Role of Chair

The role goes beyond chairing meetings and is key to achieving committee effectiveness. Key activities in addition to committee meetings should include the following.

- Before each meeting the Chair and the Committee Secretary should meet to discuss and agree the business for the meeting. The Chair should take ownership of, and have final say in, the decisions about what business will be pursued at any particular meeting.
- Meeting time should be optimised by making sure that all agenda papers are issued in good time and then having each paper summarised outlining the key points, cross referred to the organisational business and risk agenda and stating what action the committee is required to take.
- The Chair should ensure that after each meeting appropriate reports are prepared from the committee to the Accountable Officer and Board. An annual report to the Accountable Officer and Board should also be provided.
- The Chair should have bilateral meetings at least annually with the Accountable Officer, the Head of Internal Audit and the External Auditor. In addition, the Chair should meet any people newly appointed to these positions as soon as practicable after their appointment.
- The Chair should also ensure that all committee members have an appropriate programme of engagement with the organisation and its activities to help them understand the organisation, its objectives, business needs and priorities.
- The Chair of the Audit and Assurance Committee should establish a mechanism enabling key stakeholders to consider the overall risk and assurance needs (see 5.3).

- Encouraging good, open relationships between the committee, Accountable Officer, Finance Director and Internal and External Auditors. There are a number of ways that a Chair can encourage this.

The profile of the committee can be raised to support and add weight to audit work by:

- promoting audit issues internally with relevant Board members and other directors to make sure they appreciate the value of audit;
- holding managers within the organisation to account for the implementation of audit recommendations; and
- calling appropriate business heads to meetings, for example, to explain how they are delivering their agreed actions on risks for which they are responsible.
- Arranging separate meetings for the Chair, Non-Executives and independent members and Internal and External Auditors to help establish open working relationships;
- Arranging meetings with the Chair, Internal Auditors and the Finance Director etc in the weeks leading up to the committee meeting to discuss areas for the agenda and papers that should be provided;
- Arranging meetings with the Internal Auditors (and possibly External Audit) immediately before the committee meeting to help give focus to discussions; and
- The Chair should ensure that there is an appropriate process between meetings for action points arising from committee business to be appropriately pursued. The Chair should also ensure that members who have missed a meeting are appropriately briefed on the business conducted in their absence. Chairs may choose to rely on the Secretariat to take these actions.

A2 Appraisal

The Chair should take the lead in ensuring that committee members are provided with appropriate appraisal of their performance as a committee member and that training needs are identified and addressed. The Chair should seek appraisal of their performance from the Accountable Officer (or Chair of the Board, as appropriate).

The Chair should ensure that there is a periodic review of the overall effectiveness of the committee and of its terms of reference.

A.3 Appointments

The Chair should be involved in the appointment of new committee members, including providing advice on the skills and experience being sought by the committee when a new member is appointed.

The Chair should also be actively involved in the appointment of the Head of Internal Audit.

A.4 Resources

The Chair is responsible for ensuring that the work of the committee is appropriately resourced.

Annex B: Committee support: good practice

B.1 The secretariat should be able to support the Chair in identifying business to be taken, and the relevant priorities of the business. For this reason, and as the Audit and Assurance Committee is a committee of the Board, the Committee's Secretariat function should be supervised by the Board Secretariat. The Chair of the committee and the Secretariat should agree procedures for commissioning briefing to accompany business items on the committee's agenda and timetables for the issue of meeting notices, agendas, and minutes. The Chair of the committee should always review and approve minutes of meetings before they are circulated.

B.2 The specific responsibilities of the Audit and Assurance Committee Secretariat should include:

- meeting with the Chair to prepare agendas for meetings;
- commissioning papers as necessary to support agenda items;
- circulating meeting documents in good time before each meeting;
- arranging for executives to be available as necessary to discuss specific agenda items with the committee during meetings;
- keeping a record of meetings and providing draft minutes for the Chair's approval;
- ensuring action points are being taken forward between meetings;
- support the Chair in the preparation of committee reports to the Accountable Officer and Board;
- arranging the Chair's bilateral meetings with the Accountable Officer, the Head of Internal Audit, the External Auditor, and, in ALBs, with the Chair of the Board etc;
- keeping the Chair and members in touch with developments and relevant background information about developments in the organisation;

- maintaining a record of when members' terms of appointment are due for renewal or termination;
- ensuring that appropriate appointment processes are initiated when required;
- ensuring that new members receive appropriate induction training, and that all members are supported in identifying and participating in ongoing training; and
- managing budgets allocated to the committee.

B.3 When the committee decides to meet privately, the Chair should decide whether the Secretariat members should also withdraw. If so, the Chair should ensure that an adequate note of proceedings is kept to support the committee's conclusions and advice.

Annex C: Model letter of appointment

It is recommended that the following issues be included in the Letter of Appointment of an Audit and Assurance Committee member.

Appointment and purpose

You are hereby appointed as a member of the Audit and Assurance Committee of (*organisation*). As a member of the committee you are accountable to the Board (*or Accountable Officer where appropriate*) through the Chair of the Committee. Your appointment is for (*number*) years from (*date*). This appointment may be renewed (*number*) times (*by mutual agreement*) after the duration of this appointment.

The committee is a committee of the Board of (*organisation*) and its purpose is to:

- review the comprehensiveness of assurances in meeting the assurance needs of the Board and Accountable Officer;
- review the reliability and integrity of these assurances;
- review the integrity of the financial statements; and
- advise the Board and Accountable Officer about how well assurances consequently support them in decision taking and in discharging their accountability obligations.

A copy of the committee's Terms of Reference is enclosed. The committee is chaired by (*name*) and the other members are (*names*). [*It is recommended that new members be provided with a list of contact details.*]

Support and training

The Secretary of the Committee is (*name/contact details*) and he/she will shortly be in touch with you to discuss and arrange appropriate induction training.

To help you understand the governance arrangements and the role of Audit and Assurance Committees in government, you should read the Audit and Assurance Committee Handbook published by the Scottish Government.

Commitment and remuneration

The committee meets at least four times each year, but additional meetings may be required from time to time. You will also be expected to undertake appropriate training and activities designed to keep you in touch with the organisation's activities and priorities. Your remuneration will be (*include details of daily rate and procedures for claims and payment*). All monies paid in connection with this appointment are taxable and it is your responsibility to make appropriate arrangements in respect of income tax.

Expenses and subsistence

Travel and subsistence costs will be paid in accordance with (*the organisation's*) standard arrangements.

A copy of the current rates and conditions is enclosed for your information.

You are entitled to claim the following expenses and subsistence:

- travel expenses to and from home to the meeting venue;
- travel and subsistence expenses incurred as part of the work of the committee away from the normal venue; and
- dependent care costs.

You would be entitled to travel standard class by rail. Any further clarification on (*the organisation's*) arrangements should be sought via the Secretary of the Committee.

As a rule of thumb the aim is to use the most efficient and economic means of travel, taking into account sustainability, subsistence costs and savings in time.

Conflicts of interest

Any potential conflict of interest for you in your committee role, including any arising from a change in personal circumstances during your period of appointment, must be declared to the Chair of the Committee.

Appraisal

As a member of the committee you will be subject to appraisal by the Audit and Assurance Committee Chair (*include brief details of the appraisal process*).

Conduct

You are expected to conduct yourself in accordance with the principles of the *Seven Principles of Public Life* identified by the Committee on Standards in Public Life. A copy of the *Seven Principles of Public Life* is enclosed.

Liability

Under the terms of the *Scottish Public Finance Manual* issued by the Scottish Ministers, individual non-executive board members of public bodies and independent external members of board committees who have acted honestly and in good faith do not have to meet out of their own personal resources any personal civil liability which is incurred in the execution or purported execution of their board or committee functions, save where the person has acted recklessly.

Termination

If you choose to resign from this appointment you will be expected to give (*number*) months' notice, unless your circumstances have changed in a way that make it appropriate for you to resign immediately. If your performance as a committee member is decided to be unacceptable (see appraisal) or if your conduct (including conflicts of interests) is unacceptable your appointment may be terminated by the Board/Accountable Officer (*delete as appropriate*).

Annex D: Model terms of reference

The Board (and/or Accountable Officer - *delete as appropriate*) has established an Audit and Assurance Committee as a Committee of the Board to support in their responsibilities for issues of risk, control and governance and associated assurance through a process of constructive challenge.

Membership

The members of the committee are:

- non-executive directors: (List those who are appointed to the committee);
- independent external members: (List those who are appointed to the Audit and Assurance Committee; in all cases indicate the date of appointment and when the appointment is due to end/become eligible for renewal).

The committee will be Chaired by

The committee will be provided with a secretariat function by

Reporting

- The committee will formally report in writing to the Board and Accountable Officer after each meeting. A copy of minutes of the meeting may form the basis of the report.
- The committee will provide the Board and Accountable Officer with an Annual Report, timed to support finalisation of the accounts and the governance statement, summarising its conclusions from the work it has done during the year.

Responsibilities

The committee will advise the Board and Accountable Officer on:

- the strategic processes for risk, control and governance and the governance statement;

- the accounting policies, the accounts, and the annual report of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- the adequacy of management response to issues identified by audit activity, including external audit's management letter/report;
- the effectiveness of the internal control environment;
- assurances relating to the corporate governance requirements for the organisation;
- (*where appropriate*) proposals for tendering for either internal or external audit services or for purchase of non-audit services from contractors who provide audit services; and
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.

The Audit and Assurance Committee will also periodically review its own effectiveness and report the results of that review to the Board and Accountable Officer.

Rights

The committee may:

- co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience; and
- procure specialist ad-hoc advice at the expense of the organisation, subject to budgets agreed by the Board or Accountable Officer.

Access

The Head of Internal Audit and the representative of External Audit will have free and confidential access to the Chair of the Committee.

Meetings

The procedures for meetings are:

- the committee will meet at least four times a year. The Chair of the Committee may convene additional meetings, as he/she deems necessary;
- a minimum of (*number*) members of the committee will be present for the meeting to be deemed quorate;
- committee meetings will normally be attended by the Accountable Officer, the Finance Director, the Head of Internal Audit, and a representative of External Audit (*add any others who may routinely attend such as representatives of sponsoring/sponsored bodies*);
- the committee may ask any other officials of the organisation to attend to assist it with its discussions on any particular matter;
- the committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters;
- the Board or Accountable Officer may ask the committee to convene further meetings to discuss particular issues on which they want the committee's advice.

Information requirements

For each meeting the committee will be provided with:

- a report summarising any significant changes to the organisation's Risk Register;
- a progress report from the Head of Internal Audit summarising:
 - work performed (and a comparison with work planned);
 - key issues emerging from Internal Audit work;
 - management response to audit recommendations;
 - significant changes to the audit plan;
 - any resourcing issues affecting the delivery of Internal Audit objectives;
- a progress report from the External Audit representative summarising work done and emerging findings.

As and when appropriate, the committee will also be provided with:

- business update reports from the Accountable Officer;
- the Charter / Terms of Reference of the Internal Audit Directorate;
- the Internal Audit Strategy;
- the annual Internal Audit Plan
- the Head of Internal Audit's Annual Opinion and Report;
- quality assurance reports on the Internal Audit function;
- the draft accounts of the organisation;
- the draft governance statement;
- a report on any changes to accounting policies;
- External Audit's management letter/report;
- a report on any proposals to tender for audit functions;
- a report on co-operation between Internal and External Audit;
- a report on the Counter Fraud and Bribery arrangements and performance;
- reports from other sources within the “three lines of assurance” integrated assurance framework (eg Best Value self-assessment Reviews, Gateway Reviews, Health Check Reviews, ICT Assurance Reviews, Digital 1st Service Standard Reviews, Procurement Capability Reviews, Procurement Key Stage Reviews).

The above list suggests minimum requirements for the inputs which should be provided to the committee. In some cases more may be provided.

Annex E: Example Annual Core Work Programme

Spring Meeting

- Review performance relating to risk management
- Review the Internal Audit charter / terms of reference, strategy and the periodic work plan for the coming financial year
- Consider External Audit plans for the coming financial year
- Consider any reports from Internal Audit and management responses
- Consider financial reports, including relevant information about financial performance and achievement of financial targets
- Consider any reports from other sources within the “three lines of assurance” integrated assurance framework

Summer Meeting

- Review performance relating to risk management
- Review and consider the accounts for the financial year just finished
- Consider (emerging) External Audit opinion for the financial year just finished
- Review assurances provided by senior staff for the annual governance statement
- Consider Internal Audit opinion for the financial year just finished
- Consider an annual report on fraud and security
- Advise the Accountable Officer on signing the accounts and governance statement
- Consider any reports from Internal Audit and management responses
- Consider a financial report, including relevant information about financial performance and achievement of financial targets
- Consider an annual report to the Board and Accountable Officer
- Consider any reports from other sources within the “three lines of assurance” integrated assurance framework

Autumn Meeting

- Review performance relating to risk management
- Review the performance management arrangements adopted by the body including, where appropriate, the timetable for reviewing such arrangements
- Consider any reports from Internal Audit and management responses
- Consider the External Audit management letter for the previous financial year and the response to/implementation of any recommendations
- Consider a financial report, including relevant information about financial performance and achievement of financial targets
- Consider any reports from other sources within the “three lines of assurance” integrated assurance framework

Winter Meeting

- Review performance relating to risk management
- Consider any reports from Internal Audit and management responses
- Consider a financial report, including relevant information about financial performance and achievement of financial targets
- Consider the committee's own effectiveness in its work
- Review the committee's Terms of Reference
- Consider any reports from other sources within the “three lines of assurance” integrated assurance framework

Annex F: Key lines of enquiry

This list of questions is not intended to be exhaustive or restrictive nor should it be treated as a tick list substituting for detailed consideration of the issues it raises. Rather it is intended to act as a 'prompt' to help the committee ensure that their work is comprehensive.

On the strategic processes for risk, control and governance, how do we know:

- that the risk management culture is appropriate?
- that there is a comprehensive process for identifying and evaluating risk, and for deciding what levels of risk are tolerable?
- that the risk register is an accurate reflection of the risks facing the organisation?
- that appropriate ownership of risk is in place?
- that management has an appropriate view of how effective internal control is?
- that risk management is carried out in a way that really benefits the organisation or is it treated as a box ticking exercise?
- that the organisation as a whole is aware of the importance of risk management and of the organisation's risk priorities?
- that the system of internal control will provide indicators of things going wrong?
- that the AO's annual governance statement is meaningful, and what evidence underpins it?
- that the governance statement appropriately discloses action to deal with material problems?
- that the organisation is appropriately considering the results of the effectiveness review underpinning the governance statement?

On risk management processes, how do we know:

- how senior management (and Ministers where appropriate) support and promote risk management?
- how well are people equipped and supported to manage risk well?
- that there is a clear risk strategy and policies?

- that the organisation's risk appetite has been articulated?
- that there are effective arrangements for managing risks with partners?
- that the organisation's processes incorporate effective risk management?
- if risks are handled well:
 - key strategic risks can change very quickly?
 - scenario planning and stress testing?
 - bubbling under' risks?
- Risk focus is wide enough:
 - external and emerging risks are considered?
 - 'financial' risks and 'non-financial' risks are reviewed?
- if risk management contributes to achieving outcomes?
- that management are regularly reviewing top risks?

On the planned activity and results of both internal and external audit, how do we know:

- that the Internal Audit strategy is appropriate for delivery of a positive reasonable assurance on the whole of risk, control and governance?
- that the internal audit plan will achieve the objectives of the Internal Audit strategy, and in particular is it adequate to facilitate a positive, reasonable assurance on the key risks facing the organisation?
- that Internal Audit has appropriate resources, including skills, to deliver its objectives?
- that Internal Audit takes appropriate account of other assurance activity, especially in the first and second line (and that this assurance is understood and owned by management)? that Internal Audit recommendations that have been agreed by management are timeously implemented?
- that any issues arising from line management not accepting Internal Audit recommendations are appropriately escalated for consideration?

- that the quality of Internal Audit work is adequate? What does application of the Internal Audit Quality Assessment process tell us about the quality of the Internal Audit service?
- that there is appropriate co-operation between the internal and external auditors?
- The Accountable Officer and Board have taken all necessary steps to make themselves aware of any relevant information and that auditors are aware of that information?

A more detailed tool for evaluation of the quality of the Internal Audit service is the “Internal Audit Quality Assessment Framework” produced by HM Treasury.

On the accounting policies, the accounts, and the annual report of the organisation, how do we know:

- how effective and accurate budgeting and in-year forecasting is?
- if the finance function is fit for purpose?
- what the “hidden” financial risks are, relating to (inter alia):
- HR?
- VAT?
- Overruns?
- Sudden loss of funding/revenue?
- that the accounting policies in place comply with relevant requirements, particularly the HMT *Financial Reporting Manual*?
- there has been due process in preparing the accounts and annual report and is that process robust?
- that the accounts and annual report have been subjected to sufficient review by management and by the Board and Accountable Officer?
- that when new or novel accounting issues arise, appropriate advice on accounting treatment is gained?
- that there is an appropriate anti-fraud policy in place and losses are suitably recorded?
- that suitable processes are in place to ensure accurate financial records are kept?

- that suitable processes are in place to ensure fraud is guarded against and regularity and propriety is achieved?
- that financial control, including the structure of delegations, enables the organisation to achieve its objectives with good value for money?
- if there are any issues likely to lead to qualification of the accounts?
- if the accounts have been qualified, that appropriate action is being taken to deal with the reason for qualification?
- that issues raised by the External Auditors are given appropriate attention?

On the adequacy of management response to issues identified by audit activity, how do we know:

- that the implementation of recommendations is monitored and followed up?
- that there are suitable resolution procedures in place for cases when management reject audit recommendations which the auditors stand by as being important?

On assurances relating to the corporate governance requirements for the organisation, how do we know:

- corporate governance arrangements operate effectively and are clear to the whole organisation?
- the Accountable Officer's Governance Statement is meaningful, and that robust evidence underpins it?
- the Governance Statement appropriately discloses action to deal with material problems?
- the Board/Executive is appropriately considering the results of the effectiveness review underpinning the annual Governance Statement?
- the range of assurances available is sufficient to facilitate the drafting of a meaningful annual Governance Statement?
- those producing the assurances understand fully the scope of the assurance they are being asked to provide, and the purpose to which it will be put?
- effective mechanisms are in place to ensure that assurances are reliable and adequately evidenced?

- assurances are 'positively' stated (i.e. – premised on sufficient relevant evidence to support them)?
- the assurances draw appropriate attention to material weaknesses or losses which should be addressed?
- the annual Governance Statement realistically reflects the assurances on which it is premised?

On the work of the committee itself, how do we know:

- that we are being effective in achieving our terms of reference and adding value to corporate governance and control systems of the organisation?
- that we have the appropriate skills mix?
- that we have an appropriate level of understanding of the purpose and work of the organisation?
- that we understand all of the sources of assurance available to the organisation?
- that we have sufficient time to give proper consideration to our business?
- that our individual members are avoiding any conflict of interest?
- that we are avoiding "group think"
- what impact we are having on an organisation?

Annex G: Competency framework

All members of the committee should have, or acquire as soon as possible after appointment:

- understanding of the objectives of the organisation and current significant issues for the organisation;
- understanding of the organisation's structure, including key relationships such as that with a sponsoring directorate/portfolio or a major partner;
- understanding of the organisation's culture;
- understanding of any relevant legislation or other rules governing the organisation;
- understanding of the organisation's three lines of assurance and sources of assurance;
- broad understanding of the government environment, particularly accountability structures and current major initiatives.

The committee should collectively possess:

- knowledge/skills/experience (as appropriate and required) in:
 - accounting;
 - risk management;
 - audit;
 - technical or specialist issues pertinent to the organisation's business.
- experience of managing similar sized organisations and people management skills;
- understanding of the wider relevant environments in which the organisation operates;
- detailed understanding of the government environment and accountability structures.

Annex H: Self-assessment checklist

Role and remit	YES/NO/NA	Comments/Action
Does the committee have written terms of reference?		
Do the terms of reference cover the core functions as identified in the <i>SG Audit and Assurance Committee Handbook</i> ?		
Are the terms of reference approved by the Audit and Assurance Committee and reviewed periodically?		
Has the committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?		
Does the body's governance statement mention the committee's establishment and its broad purpose?		
Does the committee periodically assess its own effectiveness?		
Membership, induction and training	YES/NO/NA	Comments/Action
Has the membership of the committee been formally agreed by the management board and or Accountable Officer and a quorum set?		
Are members appointed for a fixed term?		

Does at least one of the committee members have a financial background?		
Are all members, including the Chair, independent of the Executive function?		
Are new committee members provided with an appropriate induction?		
Has each member formally declared his or her business interests?		
Are members sufficiently independent of the other key committees of the Board?		
Has the committee considered the arrangements for assessing the attendance and performance of each member?		
Meetings	YES/NO/NA	Comments/Action
Does the committee meet regularly, at least four times a year?		
Do the terms of reference set out the frequency and broad timing of meetings?		
Does the committee calendar meet the body's business and governance needs, as well as the requirements of the financial reporting calendar?		
Are members attending meetings on a regular basis and if not, is appropriate action taken?		

Does the Accountable Officer attend all meetings and, if not, is he/she provided with a record of discussions?		
Does the committee have the benefit of attendance of appropriate officials at its meetings, including representatives from internal audit, external audit and finance?		
Internal control	YES/NO/NA	Comments/Action
Does the committee consider the findings of annual reviews by internal audit and others, on the effectiveness of the arrangements for risk management, control and governance?		
Does the committee consider the findings of reviews on the effectiveness of the system of internal control?		
Does the committee have responsibility for review of the draft governance statement and does it consider it separately from the accounts?		
Does the committee consider how accurate and meaningful the governance statement is?		
Does the committee satisfy itself that the arrangements for risk management, control and governance have operated effectively throughout the reporting period?		
Has the committee considered how it should coordinate with other committees that may have responsibility for risk management and corporate governance?		

Has the committee satisfied itself that the body has adopted appropriate arrangements to counter and deal with fraud?		
Has the committee been made aware of the role of risk management in the preparation of the internal audit plan?		
Does the committee's terms of reference include oversight of the risk management process?		
Does the committee consider assurances provided by senior staff?		
Does the committee receive and consider stewardship reports from senior staff in key business areas such as Finance, HR and ICT?		
Financial reporting and regulatory matters	YES/NO/NA	Comments/Action
Is the committee's role in the consideration of the annual accounts clearly defined?		
Does the committee consider, as appropriate:		
• the suitability of accounting policies and treatments		
• major judgements made		
• large write-offs		
• changes in accounting treatment		

• the reasonableness of accounting estimates		
• the narrative aspects of reporting?		
Is an committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?		
Does the committee review management's letter of representation?		
Does the committee gain an understanding of management's procedures for preparing the body's annual accounts?		
Does the committee have a mechanism to keep it aware of topical legal and regulatory issues?		
Internal audit	YES/NO/NA	Comments/Action
Does the Head of Internal Audit attend meetings of the committee?		
Does the committee consider, annually and in detail, the internal audit plan including consideration of whether the scope of internal audit work addresses the body's significant risks?		
Does internal audit have a direct reporting line, if required, to the committee?		

As well as an annual report from the Head of Internal Audit, does the committee receive progress reports from internal audit?		
Are outputs from follow-up audits by internal audit monitored by the committee and does the committee consider the adequacy of implementation of recommendations?		
If considered necessary, is the committee chair able to hold private discussions with the Head of Internal Audit?		
Is there appropriate co-operation between the internal and external auditors?		
Does the committee review the adequacy of internal audit staffing and other resources?		
Are internal audit performance measures monitored by the committee?		
Has the committee considered the information it wishes to receive from internal audit?		
Has the committee considered formal terms of reference defining internal audit's objectives, responsibilities, authority and reporting lines?		
External audit	YES/NO/NA	Comments/Action
Does the external audit representative attend meetings of the committee?		

Do the external auditors present and discuss their audit plans and strategy with the committee (recognising the statutory duties of external audit)?		
Does the committee chair hold periodic private discussions with the external auditor?		
Does the committee review the external auditor's annual report to those charged with governance?		
Does the committee ensure that officials are monitoring action taken to implement external audit recommendations?		
Are reports on the work of external audit presented to the Audit and Assurance Committee?		
Does the committee assess the performance of external audit?		
Does the committee consider the external audit fee?		
Administration	YES/NO/NA	Comments/Action
Does the committee have a designated secretariat?		
Are agenda papers circulated in advance of meetings to allow adequate preparation by committee members and attendees?		
Do reports to the committee communicate relevant information at the right frequency, time, and in a format that is effective?		

Does the committee issue guidelines and/or a pro forma concerning the format and content of the papers to be presented?		
Are minutes prepared and circulated promptly to the appropriate people, including all members of the Board?		
Is a report on matters arising presented or does the Chair raise them at the committee's next meeting?		
Do action points indicate who is to perform what and by when?		
Does the committee provide an effective annual report on its own activities?		
Overall	YES/NO/NA	Comments/Action
Does the committee effectively contribute to the overall control environment of the organisation?		
Are there any areas where the committee could improve upon its current level of effectiveness?		
Does the committee seek feedback on its performance from the Board and Accountable Officer?		



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W W W . G O V . S C O T

1. Purpose

To present members with the Strategic Risk Register for the College.

2. Recommendation

That members note the content of the register attached to this paper and the actions taken to date.

That members note the content and layout have continued to be presented in the existing format and that this will be changed once a decision on the new risk approach for the Board is reached following discussions at the Board strategic session in September.

3. Background

The College continues to monitor Strategic Risks to the College. These risks are discussed at SMT meetings and are also brought to each meeting of the Audit Committee.

4. Changes to the Risk Register

A new risk (ID no 8) has been added at the request of the HR Committee. This risk relates to the national job evaluation process that has commenced for support staff and its potential impact on staff morale.

Risk ID no 4 has had its score reduced following further information on this topic from Scottish Funding Council which has reduced the potential impact from this risk.

5. Financial Implications

Please detail the financial implications of this item – Financial implications for relevant risks are outlined in the attached Strategic Risk Register.

6. Equalities

Assessment in Place? – Yes No

If No, please explain why – The Strategic Risk Register document does not require equalities impact assessment. Individual risks may result in Equalities assessments being completed for new/revised College policies and procedures.

Please summarise any positive/negative impacts (noting mitigating actions) – Not Applicable

7. Risk

Please indicate on the matrix below the risk score. Risk is scored against Impact and Likelihood as Very Low through to Very High.

	Likelihood	Impact
Very High		
High		
Medium		
Low	X	X
Very Low		

Please describe any risks associated with this paper and associated mitigating actions – Risk continues to be comprehensively managed and reviewed across the College on an ongoing basis.

Risk Owner – Ken Thomson

Action Owner – Ken Thomson

8. Other Implications –

Please indicate whether there are implications for the areas below.

Communications – Yes No

Health and Safety – Yes No

Please provide a summary of these implications – Not Applicable

Paper Author – Stephen Jarvie

SMT Owner – Ken Thomson

Forth Valley College Strategic Risk Register

Risk Management and Mitigation					Owners			Initial Risk Score			Score After Mitigation			Date Added and Date Score Updated
No	There is a real or perceived risk that...	Potential Consequences	Mitigating Actions	Actions/Progress to Date	Board Committee	SMT Risk Owner	Action Owner	Likelihood	Impact	Risk Score	Likelihood	Impact	Risk Score	
1	There is insufficient funding from Scottish Government/SFC to support the core activities of the College	<ul style="list-style-type: none"> - Inability to deliver high quality learning - Inability to react to changing economic and local environment - Inability to maintain College infrastructure - Impact on College performance indicators 	<ul style="list-style-type: none"> - Principal and Chair represented on sector groups to lobby SFC/Scottish Government - Vice Principal Finance and Corporate Affairs member of SFC new funding model group - Business Development strategy to increase commercial income being developed by Director of Business Development 	<p>May 19 - Indicative allocations for 2019/20 are based on flat cash GIA and a reduction in capital & maintenance funding both of which are insufficient to meet the ongoing operations of the college. Efficiency savings are being planned and maintenance delayed.</p> <p>Nov 18 - work ongoing</p>	B	P	VPFACA	VH	VH	25	VH	VH	25	
2	Delays to completion and/or issues with the transition process to the new Falkirk Campus (e.g. as a result of adverse weather/impact of Brexit on supply chain)	<ul style="list-style-type: none"> - Impact on student experience and success - Potential increase in costs - Reputational damage 	<ul style="list-style-type: none"> - EEG and FCPB monitoring progress - Development of migration strategy - Communications with stakeholders to manage expectations 	<p>April 19 - confirmation of completion date is now 15 November. Space Solution now in place and transitions groups are meeting to manage the transition process. At the point of writing no major issues have been identified</p> <p>Nov 18 - Actions being planned as per mitigating actions</p>	FCPB	P	DPCOO	H	H	16	M	H	12	
3	National Bargaining process will negatively impact on the College	<ul style="list-style-type: none"> - Unaffordable pay awards - Potential strike action which could impact on the Student experience and meeting commercial contracts - 'No Detriment' restricts options for FVC compared to sector 	<ul style="list-style-type: none"> - Chair and DPCOO represent the College on the Employers Association - Communication with staff, students and other users - Force Majeure clauses in commercial contracts to mitigate impact of strike action 	<p>April 19. This situation regarding EIS dispute continues. No settlement has been agreed and further strike action is planned for the month of May. EIS have also initiated ASOS. WE continue to ensure that where possible services to students have minimum impact</p> <p>Nov 18 - We continue to be actively involved in this process which allows us to keep on track with potential changes and able to work through the implication quickly and effectively</p>	B	P	DPCOO	H	H	16	H	M	12	
4	Employers pension contributions to the Scottish Teachers Pension Scheme could increase by 5.2% from April 2019	<ul style="list-style-type: none"> - Additional cost of approx. £500k per annum 	<ul style="list-style-type: none"> - Scottish Government in discussion with UK Treasury - Working with Colleges Scotland to lobby Scottish Government for additional funding 	<p>May 19 - Initial guidance from SFC is to assume 50% funding being worst case scenario. Score changed - impact low v medium</p> <p>Nov 18 - awaiting outcome of discussions with Scottish Government</p>	F	P	VPFACA	VH	M	15	VH	L	10	↓
5	The College will fail to deliver the Outcome Agreement	<ul style="list-style-type: none"> - Reputational damage - Potential clawback of funding and risk of reduction in credits allocated to the College 	<ul style="list-style-type: none"> - Ongoing monitoring of performance against targets by new Leadership Team - Targets cascaded to Directors with accountability 	<p>May 19 - Additional monitoring reports have been built, and will be refined through usage.</p> <p>Nov 18 - Additional monitoring reports being built for Department teams to allow granular monitoring of targets.</p>	LSE	P	VPISC	M	VH	15	L	VH	10	
6	The student experience fails to meet student expectations	<ul style="list-style-type: none"> - Reputational risk - Current/Potential students choose another College/Learning provider - Impact on College meeting credit and PI targets 	<ul style="list-style-type: none"> - Listening to Learners - Ensuring relevance of courses through robust curriculum review - Robust evaluation processes at all levels - Student support systems in place and effective - Deliver on Creative Learning and Technologies Strategy 	<p>May 19 - Work ongoing</p> <p>Nov 18 - Actions in Evaluative Report and Enhancement Plan 2017-2018 to address areas where student success PIs are lower than target and to review and enhance student support arrangements; objectives and targets for delivery of year 2 of CLT Strategy in College Operational Plan 2018-2019.</p>	LSE	P	VPLQ	M	VH	15	L	VH	10	
7	The College is adversely impacted by a cyber attack.	<ul style="list-style-type: none"> - Reputational risk - Impact on learning & teaching - Impact on key services 	<ul style="list-style-type: none"> - Up to date firewall, and cyber protection through Disc - Regular security patching - Full nightly backups and hourly snapshots to minimise disruption in the event of the need to restore data - Up to date anti-virus and malware software - Scanning and monitoring of all external drives - Resilience through additional connections to outside world - Documented and tested business continuity plan 	<p>May 19 - College staff are members of Scottish Government Cyber Catalyst Group, and receive early warnings of any known cyber attacks.</p> <p>Nov 18 - Cyber Essentials accreditation secured, Member of National Cyber Security Information Sharing Partnership</p>	A	P	VPISC	M	VH	15	L	VH	10	
8	the National Job Evaluation Process may impact staff	<ul style="list-style-type: none"> - Impact on staff morale - Short timescales for completion of submission - Potential financial impact on staff 	<ul style="list-style-type: none"> - Driven by National Agreement - Sector wide Process - Follow guidelines from Colleges Scotland 	<p>May 19 - Process now begun with a Project Manager in place to support staff going through the process. Unison involvement is also in place and meeting are planed for key staff to support them in completing the sector wide template to role profiles</p>	HR	DPCOO	DPCOO	H	M	12	M	M	9	

Forth Valley College Strategic Risk Register

9	Loss of key staff will impact on College operations	- Loss of knowledge, experience and links within the Sector and to employers etc	<ul style="list-style-type: none"> - People Strategy - Succession Planning - Talent Management Programme in place - Directors in post 	<p>April 19 - The first six months of the People Strategy has proven to be a success. We made the decision to fill vacancies internally where possible to encourage talent to remain within the college</p> <p>Nov 18 - First cohort of staff now on Talent Management programme. Effective TNA in place in all departments. Talent Management programme for first time managers ready to roll out</p>	HR	DPCOO	DPCOO	H	M	12	H	L	8		
10	International activity will not meet operational/financial targets	<ul style="list-style-type: none"> - Shortfall in College budget - Consideration of future of International Strategy 	<ul style="list-style-type: none"> - Review of activity levels and international strategy - Look at potential of delivering international activity at a sector level 	<p>May 19 - New international opportunity not progressed. Operational budget will be achieved.</p> <p>Nov 18 - International team has now been disbanded. Full year target will be met due to savings in salary cost. New international opportunity currently being explored.</p>	F	VPFACA	DBD	H	M	12	L	M	6		

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Audit Committee Agenda Items	2018/19		2019/20		
	May	Sept	Nov	May	Future Years
Governance					
Terms of Reference		✓			
Governance Statement		✓			
Internal Control Assurance Statement		✓			
Audit Committee Chair's Annual Report to Board			✓		
Audit Committee Self Assessment		✓		✓	
Items to be discussed privately with Auditors		✓	✓	✓	
Internal Audit					
Appointment / Extension of Internal Auditors	✓				May 22 / May 23
Internal Audit Plan		✓			
Internal Audit Plan Progress Report	✓	✓	✓	✓	
Annual Internal Audit Report		✓			
Internal Audit Reports	✓	✓	✓	✓	
Progress on Internal Audit Recommendations	✓	✓	✓	✓	
External Audit					
External Audit Report			✓		
Letter of Representation			✓		
External Audit Plan	✓			✓	
Risk Management					
Risk Management	✓	✓	✓	✓	
Deep Dive Proposals					
Policies (Review every 3 years)					
Risk Management		✓			
Value for Money Policy		✓			
Fraud & Anti - Corruption		✓			
Modern Slavery		✓			
Whistleblowing		✓			
Safeguarding / Prevent		✓			
GDPR					Jun-21
Other					
Audit Scotland Report - Scotland's Colleges		✓			
Business Continuity		✓		✓	
National Fraud initiative	✓	✓		✓	
Annual Complaints Report		✓			
Audit & Assurance Committee Handbook 2018	✓				As required

Good practice note on improving the quality of college annual report and accounts

Governance statements



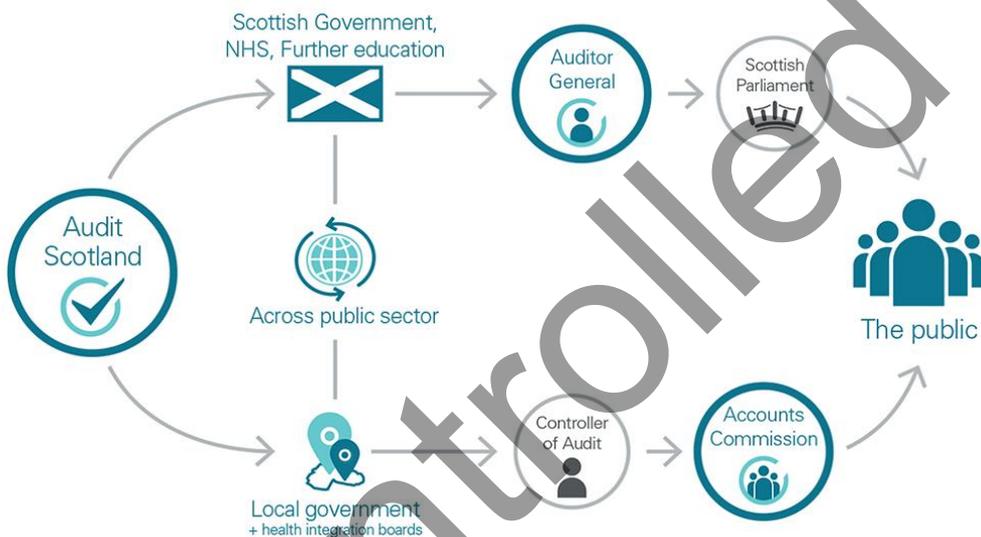
Prepared for colleges and appointed auditors

14 May 2019

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Introduction

Purpose

1. Audit Scotland promotes good practice in financial reporting in Scottish public bodies. Audit Scotland's Professional Support carry out reviews of annual report and accounts to identify and share examples of good practice reporting and highlight areas where improvements can be made.
2. This good practice note shares the findings from a review of the 2017/18 governance statements included within the annual report and accounts of the incorporated colleges and regional boards.

Context

3. Governance statements were chosen for a good practice review because 2017/18 was the second year of colleges applying the Code of Good Governance for Scottish Colleges 2016 (good governance code). Professional Support waited until year two to allow time for good practice to develop.
4. The review of governance statements was carried out by a team with knowledge of the relevant financial reporting framework. However, the team does not have a detailed understanding of each college's particular circumstances or the specific underlying governance structures.
5. Colleges are encouraged to use the findings in this report to assess and enhance their own disclosures to ensure they provide high quality information to stakeholders in their governance statements.

Financial reporting requirements

6. Colleges are required to prepare their annual report and accounts in accordance with an accounts direction from the Scottish Funding Council (SFC) which requires compliance with the [governance statement section](#) of the *Scottish public finance manual* (the SPFM). The SPFM sets out the following essential features of a governance statement:
 - the governance framework of the organisation, including information about the committee structure of the governing board (or equivalent) and the coverage of its work
 - the operation of the governing board (or equivalent) during the period
 - an assessment of corporate governance with reference to compliance with generally accepted best practice principles and relevant guidance, and explanations where a different approach has been adopted
 - an assessment of the organisation's risk management arrangements and risk profile, including, subject to a public interest test, details of significant risk-related matters arising during the period
 - a record of any written authorities provided to the Accountable Officer; and
 - details of any significant lapses of data security.

Colleges should use this good practice note to assess and enhance their own governance statements

The examples presented in this note are all unaltered from governance statements in colleges' 2017/18 annual report and accounts

Unqualified audit opinions do not mean there is no scope for improving the quality of governance statements

7. The good governance code is considered by the SFC to represent generally accepted best practice. A basic form of wording for the assessment of compliance is provided in the accounts direction. This gives colleges the opportunity to report publicly on the extent to which they meet good governance requirements.
8. The 2017/18 governance statement of each college was also considered by the appointed external auditors with a view to expressing opinions on whether the statements were consistent with the financial statements and included the content required by the accounts direction. As there were no qualified opinions, there is reasonable assurance that minimum disclosure requirements were met. However, it should not be inferred that there is no scope for colleges to improve the quality of their governance statements.

Characteristics of high quality governance statements

9. Beyond basic compliance with requirements, there are a number of characteristics of financial reporting which Professional Support believe make for a high quality governance statement. These are summarised in Exhibit 1.

Exhibit 1

Characteristics of a high quality governance statement	<p>A single story What worries board members Cut the clutter Clarity Summarise Explain change</p>
---	--

These characteristics are based on those used by the Financial Reporting Council adapted for the public sector context

10. The remainder of this good practice note is structured around these characteristics, and it discusses and highlights some of the good practice adopted by colleges in relation to each one. The note also includes points for colleges to consider in striving to achieve good practice.

Contact points

11. The contact points for this good practice note are Neil Cameron, Manager (Professional Support) - 0131 625 1797 or Helen Cobb, Senior Adviser (Professional Support) - 0131 625 1901.

Part 1

A single story

Introduction

12. There should be a single, coherent narrative running through the whole of the annual report and accounts. The governance statement is a key component and should play its part in telling that single story.

Coherent narrative

13. The governance statement should not be prepared in isolation from the other components of the annual report and accounts. By taking an integrated approach, colleges can identify and highlight relationships between the governance statement and items in the other components.
14. The governance statement should be structured in a way that allows a cohesive and clear narrative flow. Although the SPFM identifies the essential feature for a governance statement as a list of bullets, a checklist approach is unlikely to achieve effective communication. Colleges should structure the governance statement to ensure it tells an understandable story of their governance arrangements.
15. Good linkages between related disclosures is essential for the annual report and accounts to communicate a holistic story. Insufficient linkage between different components can make it appear disjointed. In particular, there should be clear links to the college's strategy and objectives, with an explanation of how governance arrangements support their realisation. Exhibit 2 provides an example of such linkage:

The governance statement should be structured in a way that allows a cohesive and clear narrative flow

Exhibit 2

In September 2017, the Board of Management approved a new Strategic Plan, setting out Edinburgh College's strategic aims over the next five years to 2022.

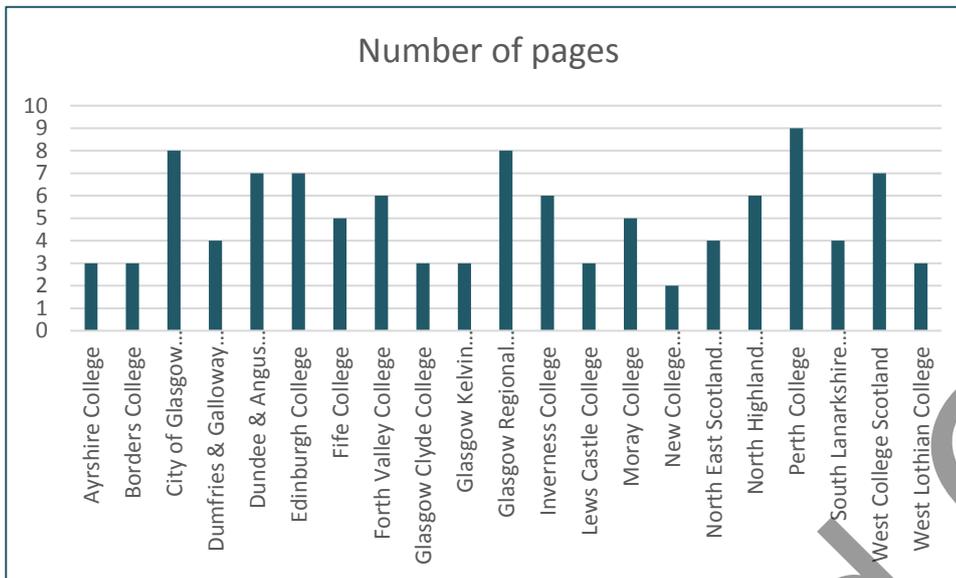
The Strategic Plan 2017/22 sets out the vision of the college for further education as a regional college across Edinburgh, Midlothian and East Lothian. It outlines the approach of the college to delivering an expansive and progressive curriculum to meet the needs of industry and equip students to meet the demands of the modern workplace. The plan has the college's values at its centre, to define our culture and foster a positive working environment. It also focuses on the status of the college as a key partner in community planning partnerships.

Length of governance statement

16. A comparison of the lengths of each college's governance statement showed a significant variation. The number of pages of the governance statements for 2017/18 are summarised in Exhibit 3.

Exhibit 3

Length of governance statements

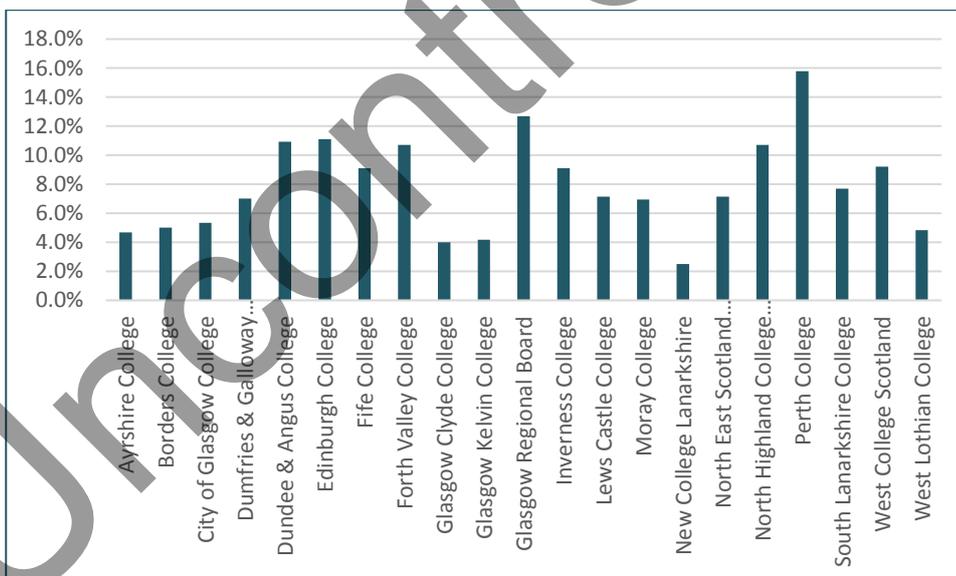


The average length of the governance statement was 5 pages. The longest was 9 pages and the shortest 2

17. The variation in length was not always explained by the relative size of the annual report and accounts. Exhibit 4 shows the length of the governance statement as a percentage of the overall length of the annual report and accounts:

Exhibit 4

Length of governance statement as a percentage of total length of accounts



The proportion ranged from 2% to 16%

18. Colleges should always strive for the governance statement to be brief, focussed and high level. These key themes are explored further in later sections of this good practice note.

Explanation of governance statement

19. The governance statement forms part of a college's corporate governance report within the accountability report. Most colleges included a heading to identify the governance statement. Exhibit 5 illustrates a clear explanation of the elements of the corporate governance report including the governance statement:

Exhibit 5

ACCOUNTABILITY REPORT

The Accountability Report comprises the Corporate Governance Report and the Remuneration and Staff Report, and is signed by the Chair and the Principal.

CORPORATE GOVERNANCE REPORT

The Corporate Governance Report comprises the following sections:

- Directors' Report
- Statement of the Board of Management's Responsibilities
- Governance Statement
 - Statement of Compliance
 - Governance Structure
 - Corporate Strategy
 - Board's Statement on Internal Control
 - Going Concern

The governance statement should be clearly identified within the wider accountability report

20. The governance statement is required to cover the responsibilities of the college's board of management in relation to corporate governance. The SPFM requires it to provide the reader with a clear understanding of the college's internal control structure and its management of resources.
21. It is helpful to users if an explanation of the purpose of the governance statement is provided. To be most helpful, the explanation should address how the statement fits in with the other components of the annual report and accounts.
22. Most colleges provided a suitable introduction in 2017/18 setting the context and explaining the purpose of the statement. Exhibit 6 provides an example of a clear explanation:

Exhibit 6

Introduction

Dundee and Angus College is committed to exhibiting good practice in all aspects of corporate governance. This governance statement is written to assist the reader of the financial statements understand how the principles have been applied.

This governance statement is designed to supplement the information provided in the financial statements. It sets out the governance structures, risk management and internal control processes that have been operating in the College in the year to 31 July 2018 and reports the Board's assessment of the effectiveness of these arrangements.

The purpose of the statement should be clearly explained

Use of cross-referencing

23. It is often helpful to group together similar or related disclosures in the annual report and accounts, as this will help reduce duplication and enable linkages to be highlighted and explained. Information which the SPFM requires to be included in the governance statement may be included elsewhere in the

annual report and accounts if that helps the college tell its story more effectively. However, where that is the case, a cross reference from the governance statement must be included to satisfy the requirements.

24. Exhibit 7 shows examples of the use of a cross-reference:

Exhibit 7

The College Leadership Team and Executive Management Team keep risk management under regular review, reporting into all Committee and the Board. Any urgent or escalating risks are also reported to the Chair in addition to this process.

Significant risks and management action that have been considered and agreed during 2017-18 are set out at page 5 of the Performance Report in these financial statements.

treatment of risks, and accordingly are careful to evaluate each risk individually. Section 1.3 of the overview section of this annual report details key issues and risks identified within GCRB's current risk register.

Cross references must be included where a required element is included elsewhere in the document

Issues identified in our review of whether the governance statement contributed to providing a single story:



Some colleges did not separately identify the governance statement, confused it with other elements of the wider corporate governance report, or named it inconsistently

There were significant variations in the length of the governance statement

Around a third of colleges did not provide a clear explanation of the purpose of the governance statement

Most colleges did not make use of effective cross-referencing

Points to consider when considering whether the governance statement helps to tell a single story:



Stand back and consider whether the governance statement helps to tell a fair, balanced and understandable story

Structure the statement in a way that allows a coherent and clear narrative

Aim for the statement to be brief, focussed and high level

Explain the purpose of the statement

Avoid using a checklist approach which can lead to duplication and a disjointed narrative

Innovate and experiment with presentation and ways to best tell the story

Part 2

What worries board members?

Introduction

25. In order to provide an insight into the effectiveness of a college's governance arrangements, the governance statement should be open and transparent, and should reflect those specific matters that genuinely cause the board of management concern.

Specific matters

26. The matters included in the governance statement should reflect an individual college's particular features and challenges. Colleges should strive to be as specific as possible so that users of the accounts can understand why the matters are important to the college's board of management.
27. Exhibit 8 provides an example of specific wording:

Exhibit 8

The Audit & Risk Assurance Committee receives regular reports from the college's internal Risk Management & Assurance Group. This Group reviews operational risk and proposes updates to the Top Risk Register. Any proposed changes to the Top Risk Register are highlighted and discussed by the Audit & Risk Assurance Committee, prior to a Summary Top Risk Register being presented to the Board of Management. Heads of department are also invited to attend this Committee to provide a statement on risk assurance and risk mitigation in relation to their areas of expertise. Following these meetings it is acknowledged that more work is required to improve business continuity planning during 2018/19.

The Audit & Risk Assurance Committee has also undertaken a series of risk 'deep dives' throughout the academic year 2017/18. The purpose of each deep dive was to consider key risks in greater detail to allow members to understand current and planned mitigations, internal controls and seek further assurances - if required. Examples of risk deep dives which took place in 2017/18 include: ICT / Cyber Security; General Data Protection Regulation (GDPR); Fraud and Anti-Corruption; and, Commercial Income. With regards to GDPR the Committee noted that there were no known significant lapses of data security during the year.

Matters included
should be
specific

Assessment of arrangements

28. Colleges are required to provide an assessment of corporate governance arrangements. The emphasis in the governance statement should therefore be on assessing the effectiveness of the arrangements rather than simply providing a description of those arrangements.
29. There should be a clear assessment of whether the college's governance arrangements are fit for purpose. Exhibit 9 shows an example of a clear assessment:

Exhibit 9

The internal auditor's annual report stated that, in their opinion, "GCRB has systems demonstrating adequate and effective arrangements for risk management, control and governance, and proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work we have undertaken during 2017-18 and also in previous years."

Openness and transparency

30. The governance statement should be an open and honest reflection of governance and the challenges faced by the college. Disclosures should provide an insight into outcomes achieved and the risks faced.
31. It is unlikely that all aspects of the governance arrangements will be fully fit for purpose and colleges should be transparent about what is working well and what needs to improve. If undertaken properly and in the right spirit, the actual process of preparing the governance statement should add value to the effectiveness of the governance arrangements by surfacing underlying governance issues.
32. The aim should not be to have a governance statement that does not highlight areas for improvement. A rigorous and robust assessment should identify issues that the college would need to address. Any organisation where the governance statement does not identify any issues risks creating a culture in which problems and concerns are suppressed. The absence of any issues to report could, rather than indicating a strong governance framework, signal the reverse.
33. Exhibit 10 provides an example of a college highlighting areas for improvement:

The governance statement should be expected to include areas for improvement

Exhibit 10

Self Evaluation

The Chair meets with each member of the Board on an annual basis as part of the Board's process of evaluating the effectiveness of board members. The evaluation of the Board Chair is undertaken by the Vice Chair. The performance of the Board Chair is also evaluated by the Scottish Government, as regional college chairs are appointed by the Scottish Ministers and are personally accountable to them.

An external Board Governance Effectiveness Review was undertaken in January 2017. The report in February 2017 concluded that 'the college meets its obligations under the Code of Good Governance and, in a number of areas, promotes highly effective governance'.

Self Evaluation of the Board was undertaken in January 2018. This happens each year, apart from the years for External Review which are planned for every third year.

The outcome of the Self Evaluation was very positive. Key areas identified for further improvement include:

- To develop a Board Links Scheme to facilitate improved organisational knowledge and the opportunity to understand staff views, culture and College business;
- Refining the organisation and content of Board and Board Committee meetings and communication - to continue to improve the effectiveness of the meetings structure and the facilitation of effective decision making;
- Continue to improve strategic knowledge and understanding of priorities in the sector;
- Stakeholders - promote College activities and get feedback on what they want from us;
- Review and further improve Induction Packs for new Board members;
- Continue with the good uptake of development/ learning opportunities including development of networking with other college Boards.

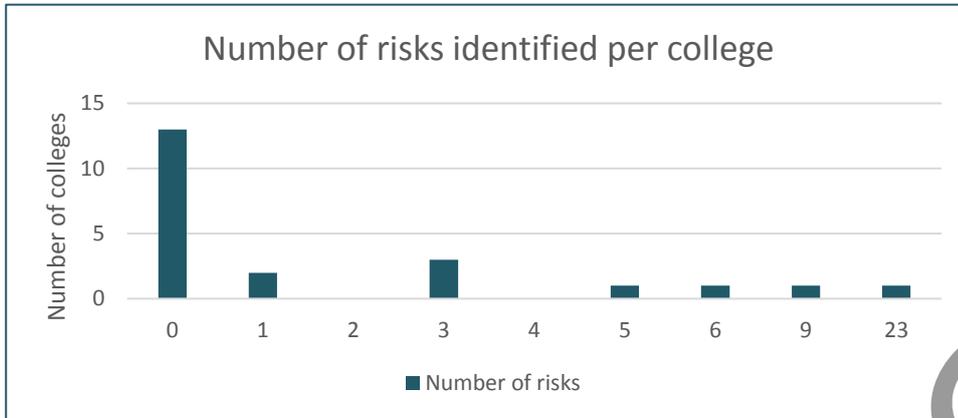
In addition to this, the Board will continue to review and refine the organisation of Board meetings and effectiveness of Board meetings.

Number of risks disclosed

34. Colleges are required to disclose risk-related matters arising during the year. Our review identified a significant variation in the number of risks reported. Exhibit 11 highlights that only nine colleges disclosed risks in their governance statement.

Exhibit 11

Number of risks disclosed by each college

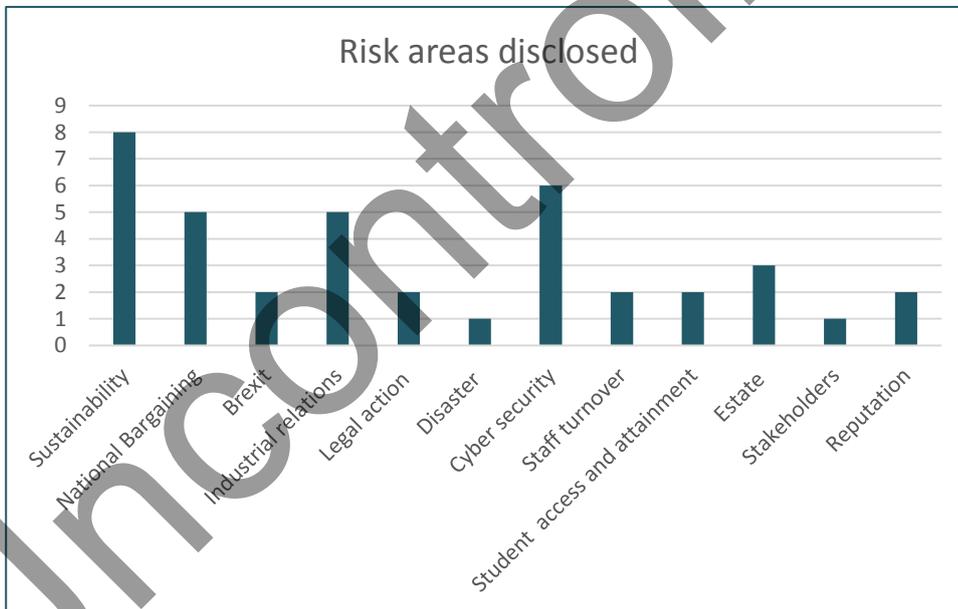


Thirteen colleges did not report any risks

35. There are many risks which are common to all colleges, for example the impact of the national pay bargaining on financial sustainability. Exhibit 12 below shows the risks disclosed and the number of colleges disclosing them.

Exhibit 12

Risk areas disclosed



36. The best disclosures explained the impact of the risks. Exhibit 13 illustrates a concise summary of the significant risks facing a college:

Exhibit 13

The Board of Management recognise that the most significant risk to the College relates to financial sustainability. Whilst this risk has been present on the risk register for some time, it is becoming a higher risk due to a number of factors, the combined effects of which pose serious challenges for the UHI partnership and the College. A new Finance Strategy is being developed and action against this strategy will provide risk mitigation. Positive engagement with UHI Executive Office and partner institutions will form a key element to minimise this risk.

This college identified the main risks it faced

Effectiveness of internal control

37. A key element of overall governance arrangements is the system of internal control. Exhibit 14 provides an example of a concise outline of internal control:

Exhibit 14

The system of internal control is based on a framework of management information, administrative processes including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- Comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the Board of Management.
- Clear definitions of the responsibilities of, and the authority to delegate to the Depute Principal and other members of the Senior Management Team.
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets.
- Regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns.
- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board;
- Comprehensive Financial Regulations approved by the Board of Management
- The adoption of formal project management disciplines.

This college provided a clear and concise outline of internal control

38. Assurance the college obtains on the effectiveness of its system of internal control comes from the work carried out by internal audit. Most colleges explained the role that internal audit played and stated that it provided an opinion on the effectiveness of the system.

39. Some colleges enhanced the usefulness of the disclosure by including a summary of the results of internal audit reviews and provided the opinion expressed. Exhibit 15 provides an example:

Exhibit 15

The internal auditor has expressed the opinion that the Regional Board of North East Scotland College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time internal audit work was undertaken and that the College has proper arrangements to promote and secure value for money.

This college disclosed the head of internal audits overall opinion.

Assessing significance

40. All governance issues identified should be considered for disclosure in the governance statement. The matters actually included should generally be those that the board of management regularly monitor and discuss because of the magnitude of their potential effect on the college.
41. In preparing the governance statement, the college needs to take a view on whether issues are significant enough to be included within the statement.
42. Exhibit 16 lists the key questions to be answered in judging whether an issue is significant:

Key issues and risks will generally be those that board members regularly monitor.

Exhibit 16

Questions to help decide whether to disclose an issue

Does the issue put a significant programme or project at risk?

Might financial stability, security or data integrity be put at risk?

Might the issue prejudice achievement of the business plan or other priorities?

Could the issue undermine the integrity or reputation of the organisation?

Could this issue have a material impact on the accounts?

Mitigation controls

43. It is helpful to users if an explanation of how the risks are managed or mitigated is included in the governance statement. A few colleges provided an explanation of what they were doing to manage the risks overall in 2017/18. Exhibit 17 provides an example:

Exhibit 17

The Board of Management has overall responsibility for ensuring the effective identification, mitigation and monitoring of strategic risks within the College. The Audit Committee has delegated authority from the Board of Management to approve the Risk Management Policy and to review regular reports from the College Senior Management Team regarding risk.

The College operates a Strategic Risk register which identifies the most significant risks to the College. This register is taken to every meeting of the Audit Committee for comment and challenge. It is also provided annually to the Board of Management.

The Principal is responsible for the maintenance of the College strategic risk register and for ensuring appropriate risk mitigation actions are implemented to address significant risks to College operations and strategic objectives. Senior Management Team members are responsible for establishing controls to mitigate identified risks wherever possible. This information is included on the Strategic Risk Register in summary form.

Risk Management is embedded in the operations of the College. The identification and mitigation of risk is a component in all decision making and is a standing item at all Senior Management Team, Board Committee and Board of Management meetings. The College also operates a risk management system whereby areas of significant risk to the College have their own specific risk register. It is under this approach that an estates risk register was established to support the Falkirk campus project.

Delegation of responsibility for managing the key risks in the risk registers is essential if risk management is to be effective. The risk registers, therefore identify "owners" for each risk.

44. It is also useful if colleges give an indication of the significance of risks after mitigation has been applied. Exhibit 18 provides examples:

Exhibit 18

The most significant financial risks for the College after mitigation are:

- the failure to achieve a balanced budget/delivery of the Financial Recovery Plan;
- medium-term financial sustainability/impact of National Bargaining; and
- the College estate and infrastructure not being fit for purpose due to lack of capital investment.

The following table sets out the six strategic risks for which the underlying risk has been scored as "major". It records the residual risk, with no risks shown as "major" and only three as "significant", following the mitigating actions which have been taken.

Risk	Before mitigation	After mitigation
Failure to achieve institutional sustainability	Major	Significant
College disadvantaged by changes arising from UK leaving European Union	Major	Significant
Industrial Relations Problems	Major	Significant
Legal actions; serious accident; incident or civil/criminal breach	Major	Minor
Disasters – eg Fire, MIS Failure, Failure of Emergency Procedures	Major	Minor
Breach of data security / data protection*	Major	Minor

This college explained the most significant risks after mitigation

This college set out the impact of mitigation on each risk

Action plan

45. The governance statement should highlight the areas to be improved and importantly how this is to be actioned. It is important that the governance statement includes an action plan which:

- covers all significant issues
- shows who is responsible for each action and in what timescale.

Issues identified in our review of whether the governance statement explained what worried the board:



Most colleges did not disclose the opinion of the head of internal audit on internal control

Colleges did not include an action plan

Most colleges did not disclose any risks

Most colleges described the risk management processes without providing a clear assessment of effectiveness

Points to consider when explaining what worries the board



Be sufficiently specific so that users can understand why risks are important

Include a clear assessment of whether governance arrangements are fit for purpose

Consider all governance issues identified but disclose and explain only those that are considered significant

Describe the actions to mitigate key risks

Include an action plan

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Part 3

Cut the clutter

46. Governance statements should be brief, focussed and avoid clutter. Clutter is immaterial disclosures that inhibit the ability of users to identify and understand relevant information.

Clutter is immaterial disclosures that inhibit the ability to identify and understand relevant information

Comprehensive and concise

47. The governance statement should be comprehensive, but it should also be concise. There does not have to be a tension between these two requirements.
48. Comprehensiveness reflects the breadth of information that should be included rather than the depth of information. The governance statement does not need to cover all possible matters in detail to be considered comprehensive. It should include the information that is necessary for an understanding of the governance arrangements of the college. There is a risk that the longer governance statements highlighted in part 1 include too much unnecessary information leading to the main messages being lost.
49. Conciseness is achieved through the efficient communication of all significant information. Colleges should not confuse conciseness with excessive brevity in the level and type of information provided. There are risks that the shorter governance statements highlighted in part 1 are overly brief and so do not include all the necessary information.

Relevance of disclosures

50. Colleges should take care to ensure that all the information included in the governance statement is relevant to its circumstances.
51. Boiler-plate wording refers to generic disclosure which could apply to any body that gives no additional useful information to users of the accounts. While taking standard wording from another source can be of assistance, a college should take care to tailor the wording to its specific circumstances.

Relevance is a fundamental qualitative characteristic of financial information

Materiality of disclosures

52. Financial reporting is not an end in itself and the information to be included in the governance statement should be determined by the needs of users. Only information that is material to users of the accounts should be included in the governance statement. Materiality is an aspect of relevance that is specific to each college based on the nature or magnitude of the effect of the information, judged in the particular circumstances.
53. This requires the board of management to apply judgement based on their assessment of the relative importance of the matter to the college.
54. Immaterial information should be excluded as it can obscure the key messages and impair understandability.

Materiality is an entity-specific aspect of relevance

Duplication

55. The appropriate use of cross-referencing (explained in part 1) should help to avoid unnecessary duplication. Where an item is adequately addressed in

one part of the annual report and accounts it can be included elsewhere by cross-reference.

56. For example, the accounts direction requires an explanation of the adoption of the going concern basis in the performance report but also suggests confirmation in respect of going concern in the governance statements. Most colleges included a reference in only one place.

Use of signposting

57. Colleges should avoid excessive wordy descriptions particularly where a weblink would suffice. Signposting is a useful technique that can be used to direct users to complementary information that is not required to meet the disclosure requirements for the governance statement. Signposted information can be located in another component in the annual report and accounts (e.g. an appendix) or elsewhere (e.g. on a website).
58. Some colleges made effective use of signposting in 2017/18 to refer the user to further documents and information available. For example, a few colleges provided a link to the registers of interests for members. Exhibit 19 provides an example:

Signposting to complementary information can reduce the statement length

Exhibit 19

A short biography of each Board Member together with their Register of Interests can be accessed on our website. The following link can be used <https://dundeeandangus.ac.uk/about-us/governance/>

59. However, where hyperlinks are included, colleges should ensure that the version of the annual report and accounts published on their website allows the user to follow these links.

Issues identified in our review of whether the governance statements contained clutter:



Some colleges included lengthy descriptions of a wide range of matters rather than succinctly focussing on key aspects

Some colleges went into excessive detail on certain items

Many colleges appeared to be using boiler-plate wording

Some colleges directed users to other documents but did not provide a hyperlink

Most of the hyperlinks in the governance statement did not work for external users

Points to consider when reducing clutter:



Include the necessary breadth of information in a concise way

Ensure disclosures are relevant to the college

Use judgement to assess the relative importance of relevant information

Consider the appropriate use of signposting to allow the user to access complementary information

Avoid excessive detail about a large number of matters

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Part 4

Clarity

60. The governance statement should provide understandable information and use precise language that explains issues clearly.

Plain language

61. The language used to support and explain the disclosures in the governance statement is fundamental to users' understanding of the information presented. The governance statement should be written in plain language such as in Exhibit 20.

The governance statement should be written in plain language

Exhibit 20

The Annual Internal Audit Report for 2017/18 submitted by the College's internal auditor concluded that, the College has adequate and effective arrangements for risk management, control and governance.

An audit register is used by senior management to periodically review and progress all outstanding recommendations and that is also reviewed by the committee.

GOVERNANCE STATEMENT

Introduction

The College is committed to complying with best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles of the Code of Conduct for Members of the Board of Management of Inverness College UHI, and the 2016 Code of Good Governance for Scotland's Colleges. Their purpose is to help the reader of the financial statements understand how the principles have been applied. It is a condition of the Financial Memorandum with the University of the Highlands and Islands (RSB) that the governing body of Inverness College UHI meets the principles of good governance set out in the 2016 Code of Good Governance for Scotland's Colleges

Use of jargon

62. The excessive use of technical language (i.e. jargon) should be avoided where possible. Where the use of technical terms is necessary, they should be clearly defined and used consistently. Some colleges clearly explained terms which were not obvious to lay persons. Exhibit 21 provides an example:

Exhibit 21

In November 2016, the Board of Management approved a revised Risk Management Policy and Risk Management Procedure, which included reference to Risk Tolerance as well as Risk Appetite. The respective definitions employed are set out in the Policy thus:

"In broad terms, appetite relates to the willingness to seek potential benefits, while tolerance sets limits on acceptable loss in pursuit of these benefits, with reference to the organisation's strength and resilience. The Institute of Risk Management states that: "While risk appetite is about the pursuit of risk, risk tolerance is about what an organisation can actually cope with."⁵ In short, the terms relate to whether an organisation is respectively "willing" and "able" to take the risk, or sustain the potential consequences of the risk.

Clear messages

- 63.** Governance statements should be written so that messages are conveyed clearly, particularly when important assurances are being given. The overall evaluation of the effectiveness of corporate governance should be clear in respect of the extent of assurance being provided. The use of vague or ambiguous language does not send a clear message about accountability.
- 64.** Exhibit 22 provides an example of a clear statement of compliance with the good governance code and another example clearly explaining an issue of non-compliance in accordance with the accounts direction:

Exhibit 22

The College complies with all the principles of the 2016 Code of Good Governance for Scottish Colleges, and it has complied throughout the year ended 31 July 2018.

Statement of Compliance

The College complies with all the principles of the 2016 Code of Governance for Scottish Colleges with the exception of the role of the Secretary to the Board. The Code of Good Governance states: "The board secretary may be a member of the senior management team in their board secretary capacity, but they cannot hold any other senior management team position at the same time."

The Board of Management have appointed the Vice Principal People and Performance as Secretary to the Board, who reports directly to the Chair in relation to their Board Secretary duties, in order to prevent any conflicts of interest. The Board is satisfied with this arrangement, noting that it is not unusual in either the public or private sectors. The Board of Management have no current plans to change this arrangement.

- 65.** Colleges should avoid qualifying phrases such as compliance 'in all material respects' or 'to the extent applicable' without explain the areas of non-compliance and how they are to be addressed. Alternatively, if the non-compliance is genuinely not material and therefore there are no plans to address it, a qualifying phrase is unnecessary and misleading.
- 66.** It may be clearer for users of the accounts if 'nil return items' (i.e. instances where there are no incidents of a required event) are explicitly reported as such. For example, nine colleges disclose the fact there were no data related incidents in 2017/18. It is assumed that the remaining colleges also had no such incidents, but a brief explicit statement removes any doubt.

Issues identified in our review of whether the governance statement was clear



Jargon was prevalent in many governance statements but some colleges did not explain it

It was not always clear which governance code the college was reporting compliance with or whether there was full compliance for the whole year

Points to consider when providing a clear explanation of governance include



Use plain language

Avoid using jargon, or explain it where it cannot be avoided. Consider providing a glossary of key terms

Avoid boiler plate wording and make sure standard wording is tailored to the circumstances of the college

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Part 5

Summarise

67. In order to highlight the key messages, items should be reported at an appropriate level of aggregation. Tables of summarised information should be supported by accompanying narrative.

Aggregation to appropriate level

68. The governance statement should not include so much detail that the main messages are lost. It is helpful if information is aggregated to an appropriate level as this helps users to see key themes without getting lost in excessive detail.
69. Exhibit 23 provides an example:

Items should be reported at an appropriate level of aggregation.

Exhibit 23

Attendance at the relevant meetings throughout the year was as follows:

• Board of Management	85%	(2016/17: 73%)
• Audit	85%	(2016/17: 77%)
• Finance and Resources	88%	(2016/17: 94%)
• Human Resources	100%	(2016/17: 100%)
• Development	95%	(2016/17: 64%)

Infographics

70. The method of presentation can significantly affect the understandability of information in the governance statement. The most appropriate method of presentation will depend on the nature of the information but, in addition to narrative, may include tabular, graphical or pictorial methods.
71. Exhibit 24 illustrates a committee structure being described diagrammatically:

Infographics can improve presentation and should be supported by narrative.

Exhibit 24



Finance and General Purposes Committee

The Finance and General Purposes Committee advises the Board on key issues of the College's financial and resource management. It ensures that all areas of the College's financial performance, procurement and information technology are subject to best practice controls and review, ensuring solvency, sustainability, efficiency and innovation.

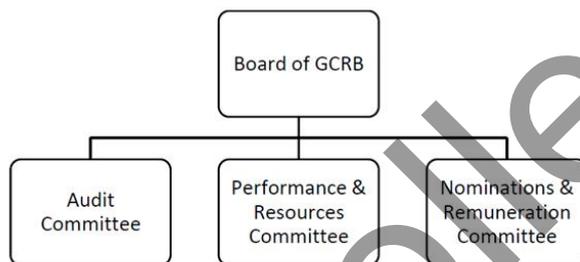
It also considers matters of a general nature that do not fall to other standing sub-committees. This Committee normally meets four times a year, and in addition meets once a year with the Audit Committee to consider the annual Financial Statements.

Disclosing each committee's remit under a sub heading improved the clarity of the disclosure

72. In most cases tables and other infographics should be supported by accompanying narrative. It is important that the narrative is consistent with the message conveyed by the infographic.
73. Exhibit 25 provides an example where narrative was used to explain a diagram:

Exhibit 25**Governance Structure**

The following diagram outlines GCRB's governance structure:



The Board of GCRB held five formal meetings during the 2017-18 academic year. Two further meetings have been held so far within the 2018-19 academic year. The Nominations & Remuneration Committee met on six occasions, the Audit Committee four times and the Performance & Resources Committee five times.

74. As a rule, tables should not be of such a length as to span a number of pages. Where necessary, larger tables can be split into a number of smaller separate tables.
75. The use of innovative presentation techniques such as infographics can help to communicate information in an easy to access and attractive manner. The use of colour and pictures can help to engage readers. Information that can helpfully be presented graphically includes:
- actions to mitigate risks
 - actions plans
 - committee structures and governance frameworks.

Case studies

76. The use of case studies can be an effective way to engage the user and to highlight issues and action to address them. Exhibit 26 provides an example of a college making use of a case study to give the user an insight greater insight.

Exhibit 26

The Forth Valley College agreed Estates strategy comprises a vision for three new campuses. The first in Alloa, the second in Stirling and a third in Falkirk. A significant investment has already taken place in phases 1 and 2 of this strategy with Alloa and Stirling successfully completing on programme and within budget in 2011 and 2012 respectively. The new Falkirk Campus is planned to open in November 2019.

Significant progress has been made toward the realisation of the new Falkirk campus, with the submission of the final Decision Point 4 report to the Scottish Funding Council and Scottish Government and approval received on 4 October 2017. Following this approval, the appointment of the main contractor Balfour Beatty occurred on 11 October 2017.

The new campus plans include servicing the current Falkirk Campus curriculum and will accommodate over 11,000 students of which almost 2,000 will be full time. The New Falkirk Campus will be 20,720 sqm and will incorporate state of the art and flexible teaching accommodation, as well as low carbon initiatives, such as Photovoltaics, a Ground Source Heat Pump system, Combined Heat and Power boilers, along with other sustainable functions required to meet the Building Research Establishment Environmental Assessment Method (BREEAM) standard.

Issues identified in our review of whether the governance statement summarised information



Our review did not identify any use of infographics beyond basic tables

Some tables spanned a number of pages and were difficult to follow

Most colleges did not make use of case studies

Points to consider when summarising your governance arrangements



Aggregate information at an appropriate level to highlight key messages

Consider which information could be better presented using tables or more innovative infographics

Consider using case studies to add valuable insight

Part 6

Explain change

77. The governance statement should explain what was done in response to issues reported in the prior year.

Following up prior year action plan

78. It is important that colleges properly account for actions taken to address previous issues. The governance statement should provide a full explanation of the progress on implementing action plans included in previous years.

Changes in governance arrangements

79. It is helpful to readers if changes in the governance structure are highlighted and explained. Exhibit 27 provides an example:

Exhibit 27

Additionally, in recognition of the significant developments as the Falkirk Campus Project Board progresses towards the realisation of the new Falkirk Headquarters Campus, an additional committee has been established. While the Falkirk Campus Project Board is separate from the main Board of Management structure, three non-executive Board Members serve on this Board to ensure adequate representation from the main Board of Management

Changes in governance statement

80. Colleges should be striving to continuously improve the quality of their governance statements. The prior year governance statement should be seen as a base level on which to improve rather than a standard to replicate. It is expected that colleges should be able to demonstrate a marked improvement in their governance statements compared with the previous year.
81. Each year's governance statement should be written specifically for the year under consideration. The relevance of a matter may vary relative to other matters over time. As a minimum, there should be obvious differences to reflect new risks and challenges, enhancements in governance arrangements, and changes in priorities. Our review therefore also considered the 2016/17 governance statements to provide a benchmark.

A college should aim for a marked improvement in its governance statement

Issues identified in our review of whether the governance statement explained change:



Most colleges did not provide any update on issues raised in previous years

Most governance statements did not show a noticeable improvement or development between 2016/17 and 2017/18

Points to consider when explaining change



Provide a full explanation of the progress on implementing previous year action plans

Highlight any changes in governance arrangements

Challenge the content and presentation of the governance annually

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Good practice note on improving the quality of college annual report and accounts – governance statements

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